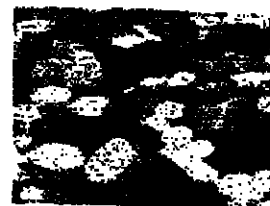


FINANCIAL TIMES



Drug industry
UK groups take
their medicine

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Car market
US sales stuck
in slow lane

Page 19



Art and science
New light on
old masters

Page 13



Today's surveys
Defence industries
Energy efficiency

Separate sections

World Business Newspaper

TUESDAY DECEMBER 5 1995

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Rivalry between France and US grows over Bosnia

Western governments will today start fine-tuning their plans to impose peace in Bosnia amid growing signs of Franco-US rivalry over who should take credit for the agreement. France has insisted that a forthcoming treaty to end nearly four years of war in Bosnia be known as the Elysée treaty, after the French presidential palace, and not the Dayton accord, after the Ohio city where the deal was negotiated. Page 18; Doubts grow over Slavonia deal, Page 2

EU agrees sports boycott of Nigeria

European Union foreign ministers have agreed to impose a sports boycott on Nigeria, by denying visas to official delegations and Nigerian national teams, as punishment for executing nine community workers, including Ken Saro-Wiwa (left) last month. Ministers also agreed to withdraw military attaches from Nigeria and to expel Nigerian military officials from Europe. The move comes in addition to an arms embargo and aid freeze.

Cautious hope for Russian recovery: Economic prospects for eastern Europe look bright next year and there are grounds for cautious optimism that the six-year slump in Russian output may be coming to an end, according to the United Nations Economic Commission for Europe. Page 5

Weak demand for Pechiney sell-off: The French government launched the privatisation of Pechiney, but was forced to scale down the issue because of weak demand and investors' concerns about the size of a planned capital increase for the aluminium and packaging group. Page 19; Lex, Page 18

Brussels urges 'whistle-blowing': Draft proposals aimed at encouraging companies to "blow the whistle" on each other's illegal activities are shortly to be unveiled by the European Commission as part of its efforts to clamp down on price-fixing cartels. Page 2

ICI to open N American plant: The manufacturing unit of ICI, the UK-based computer company owned by Fujitsu of Japan, intends to open a north American factory in the next 18 months. Page 11

Russian bank body joins self-offs dispute: A senior representative of the Association of Russian Banks joined the growing controversy about the country's privatisation programme. Page 3

Fish stocks treaty delay: The first global treaty designed to protect fish stocks on the high seas, agreed four months ago, is already running into difficulty, conservationists warned. Page 6

Warning on West Bank jobs: A severe shortage of wage-earning jobs in Gaza and the West Bank is putting the Middle East peace process under tremendous pressure, the International Labour Organisation has warned.

BP acetic acid plant for Chengqing: British Petroleum signed a \$240m joint venture agreement to build an acetic acid plant in the south-western Chinese city of Chengqing. Page 5

Manila and Bangkok vie for GM plants: The Philippines and Thailand are vying to secure a \$1bn investment from General Motors which is seeking to establish a south-east Asian production facility. Page 18

BA and KLM deny partnership reports: Shares in British Airways and KLM rose after a press report saying the two were involved in partnership talks - despite a firm denial of the story by the Dutch carrier. Page 21

CCF future in doubt: Crédit Foncier de France, the specialist banking group, withdrew its proposal to merge with an associated company, in an important and unusual victory for the country's minority shareholders. Page 22

Hostage children freed: French police commandos overpowered a gunman who took a class of 30 children and their teacher hostage at a Paris primary school.

England draw second test: Captain Mike Atherton led England to a remarkable draw in the second cricket test against South Africa in Johannesburg with an unbeaten 186 in 10 hours and 44 minutes. England, needing 479 to win, reached 351 for five at the close. The first game of the five-match series was also drawn.

STOCK MARKET INDICES			
New York	5,101.85	(+14.82)	
Dow Jones Ind. Av.	1,958.89	(+13.38)	
NASDAQ Composite	1,774.86	(+46.09)	
Europe and Far East	2,282.18	(+5.3)	
FT-100	2,652.7	(+10.7)	
Nikkei	18,897.37	(+84.27)	
US LUNCHTIME RATES			
Federal Funds	5.75%		
3-month Treas. Bill	5.437%		
Long Bond	111.5		
Yield	6.914%		
OTHER RATES			
UK 3-mo Interbank	6.2%	(same)	
UK 10 yr Gilt	10.9%	(10.9)	
France 10 yr OAT	10.5%	(10.5)	
Germany 10 yr Bund	10.2%	(10.2)	
Japan 10 yr JGB	11.3%	(11.3)	
NORTH SEA OIL (Argus)			
Brent 15-day (Jan)	517.38	(17.14)	

GOLD			
New York	387.3	(287.4)	
London	386.5	(286.5)	
DOLLAR			
New York	1.3335	(1.3335)	
DM	1.4381	(1.4381)	
FF	5.0062	(4.995)	
Sfr	1.1677	(1.1677)	
Y	161.035	(161.035)	
STERLING			
DM	2.2051	(2.212)	
Tokyo close	Y 101.2		

French battle over reform may deepen ■ Franc falls on unsettled markets

Juppé hardens stance on strikes

By David Buchanan in Paris

Mr Alain Juppé, the French prime minister, last night convened an emergency cabinet meeting to reinforce government solidarity against mass protests at his welfare and public sector reforms.

The battle over reform may reach a peak today, as workers across almost all the public sector are planning to strike, and hold a protest march in Paris, while the government will face an opposition censure motion in parliament.

The hardening confrontation between the government and the unions unsettled French financial markets yesterday. The CAC-40 share index in Paris fell 2.53 per cent, while the franc ended the day at FF3.48 against the D-Mark, after opening at FF3.50.

The franc has lost five centimes against the D-Mark in the past week, but the Bank of France has so far declined to raise its intervention rates for fear of choking what growth remains in an economy increasingly hit by the strikes.

In advance of today's general strike call, led by the pro-communist CGT union federation, unrest yesterday spread further in the public sector, with France Telecom reporting 15,000 of its workforce on strike. Some truck drivers reinforced the impact of the 11-day rail strike by blocking roads, but few other private sector employees responded to union appeals to join the protests.

Mr Juppé, who has been publicly silent for the past week on the strikes, will today defend himself in the National Assembly against the opposition Socialists' motion censuring the government for "compromising national solidarity" with its social security reform plans. However, the government has a very safe majority in parliament.

Last night's cabinet meeting was called by Mr Juppé to stress



Passengers make their way on foot to Marseilles airport after the road was blocked by lorries as French unions continued to protest over the government's welfare reform plans.

to all his 32 ministers that he has no intention of backing down on the welfare reforms announced on November 15 and backed by President Jacques Chirac.

After the meeting, Mr Alain Lamassouze, the government spokesman, said there was "no reason for any strikes" because the government remained

"totally open to dialogue" with unions on the detailed implementation of the reforms.

Officials dismissed as "absurd" rumours that Mr Chirac might call fresh parliamentary elections or a referendum as a way out of the impasse. In last Sunday's first round vote in seven by-elections, Socialists made gains

which could result in their taking at least two seats off the ruling conservatives in next Sunday's final vote.

The CGT and Force Ouvrière, the two rival federations spearheading the strike movement, are hoping that the snowballing strikes will force Mr Juppé to withdraw his plan and negotiate an alternative. "The Juppé plan must be withdrawn; after that we will negotiate", said Mr Louis Vianet, the CGT president.

A senior Juppé aide predicted yesterday that the strikes would peak "in a paroxysm of protest" today, but would then blow themselves out, although "they could continue into next week". The prime minister was banking on the traditional animosity between the CGT and FO to assert itself, and on apathy, if not hostility, by the private sector towards the strikes, the aide said.

The Bank of France's reluctance to rush any interest rate rises also seems to indicate it shares Mr Juppé's analysis.

Yesterday saw little immediate improvement in traffic conditions around Paris, despite the government's move to hire up to 1,700 private buses to get 100,000 commuters in and out of the capital. Industry and commerce, meanwhile, is counting the cost of the strikes. The retail sector in Paris has been hit severely, and Mr Jean Tiberi, the mayor of Paris, may allow shops to stay open on Sundays throughout December to help offset the downturn.

Strikes put recovery in doubt, Page 2; Editorial comment, Page 17; Currencies, Page 29; World stocks, Page 38

GM reunites top jobs after three-year split



Jack Smith becomes chairman as well as chief executive of GM

By Richard Waters in New York

General Motors yesterday reunited the roles of chairman and chief executive after an unusual three-year split, signalling the US car and truck maker's return to financial health after a crisis in the early 1990s.

The company named Mr Jack Smith, who was already chief executive and president, as chairman from January 1. He will replace Mr John Smale, the former chairman of Procter & Gamble who led a revolt of GM's outside, or non-executive, directors in 1992.

Under urging from Mr Smale, GM's board forced the resignation of then-chairman and chief executive Mr Robert Stempel, and divided his job. The US's biggest manufacturer was struggling at the time to overhaul its operations after a \$5bn loss the year before.

General Motors has been one of

only a handful of big US companies to divide power in its boardroom. Typically, US companies only separate the roles of chairman and chief executive as part of a succession process, or when the politics of a merger prompt a degree of job-sharing at the top.

Mr Smale maintained at the time that the decision to split the role was based on GM's particular circumstances, and did not signal a belief that a chief executive's power should be balanced by a non-executive chairman.

However, GM's boardroom move became the rallying point for the US corporate governance movement, which has urged more checks to the power of chief executives in the country's boardrooms.

The ousting of Mr Stempel preceded moves by non-executive directors at other struggling US companies, including Eastman Kodak, Westinghouse Electric and American Express. In each of

these cases, though, the roles of chief executive and chairman were not split, and outsiders were brought in to steer the turnaround.

Mr Smith's elevation to the chairman's job follows a rebound in earnings in GM's core North American operations, which had accounted for its earlier losses. Despite a sometimes bumpy ride, the North American business returned to profit last year, helped by cost-cutting and a healthy economic backdrop.

Under boardroom procedures adopted at the depth of its finan-

cial crisis, GM's non-executive directors will retain an influential position. These provide for a so-called "lead director" to co-ordinate and head the non-executives' activities. Mr Smale, 68, will chair a new executive committee, a position he held before becoming chairman.

The company also named Mr Harry Pearce, an executive vice-president, as a director. Mr Pearce, a lawyer, oversees GM's non-automotive businesses.

Contest for GM plant, Page 18; Carmakers puzzled, Page 19

Dutchman to succeed Timmer as chairman of Philips

By Ronald van de Krol in Amsterdam

Mr Jan Timmer, the management board chairman of Philips and architect of the Dutch electronics group's turnaround, ended months of speculation yesterday by announcing he will retire on October 1 1996.

His successor will be Mr Cor Boonstra, a fellow Dutchman and member of the Philips management board. Mr Boonstra, who was president and chief operating officer of Sara Lee, the US consumer products group, until January 1994, joined Philips in mid-1994.

His appointment, while not unexpected, confounds expectations that Philips might appoint the first foreigner in its 164-year history to the top job. That would have capped the changes at Philips since it embarked on a revitalisation programme under Mr Timmer in 1990.

Speculation about the date and identity of Mr Timmer's successor intensified after the Philips president turned 82 in February, an age when most top Dutch executives retire.

Other frequently-cited candidates for the job were a trio of executive vice-presidents who all serve on the management board - Mr Dudley Eustace, finance director and a Scotsman; Mr Frank Carrubba, an American who looks after technology; and Mr Pierre Everaert, a Belgian-born US citizen who came to Philips from Ahold, the Dutch supermarket group. The only Dutch member of the six-member management board, besides Mr Timmer and Mr Boonstra, is Mr Henk Eddi, head of consumer electronics.

The influx of foreign-born senior executives is one of the hallmarks of Mr Timmer's tenure, which began in July 1990 after Philips slid into losses.

Mr Boonstra, 57, who worked for Sara Lee in Europe and the US for 20 years before moving to Philips, fits the same tough-minded mould as Mr Timmer, a career Philips man who shook the paternalistic company out of its lethargy. His growing chances to succeed Mr Timmer

Continued on Page 18

Steady EU reforms urged ahead of eastern expansion

By Lionel Barber in Brussels

The European Union should take slow and steady steps in reforming its institutions to pave the way for enlargement, a report by EU officials will recommend today.

The publication of the report, intended to prepare for next year's inter-governmental conference, comes on the eve of a Franco-German summit which is expected to produce a joint, if sketchy, position on institutional reform.

Britain is highlighted in the report on several important issues. It notes British opposition to an increase in issues to be decided by majority voting, UK reservations about expanding the European Parliament's powers of co-decision on EU legislation, and British blocks on union-wide social policy.

The group - chaired by Mr Carlos Westendorp, the senior Spanish diplomat, comprises experts from the 15 member

states, European Commission and European Parliament. Its report will be discussed at the EU summit in Madrid on December 15-16.

The impact of the Westendorp report is likely to be diminished by the fact that all member states are holding back ahead of the actual negotiations which will begin after the launch of the inter-governmental conference at Turin in late March.

Mr Westendorp makes clear in his introduction that the IGC is unlikely to turn into a "big bang" conference introducing radical institutional reform.

"We consider the conference should focus on necessary changes, without embarking on a complete revision of the [Maastricht] treaty," says the draft. The report argues that the IGC is "just one step" in the process of enlargement to eastern Europe. The other unnamed steps are reform of the Common Agricultural Policy, regional aid and a new regional budget deal.

Mr Westendorp says in a covering note that the IGC should focus on making Europe "more relevant" to its citizens, making the EU work more effectively ahead of eastern enlargement; and giving the Union greater capacity for external action.

Though individual countries are not identified, Britain's views are well known and Mr Westendorp makes little effort to hide its isolation on certain issues.

On majority voting - perhaps the most contentious issue of all - the report says: "Many of us believe greater efficiency would be enhanced by more qualified majority voting in the council (of ministers) which, according to many, should be the general procedure in the enlarged community."

"Some of us believe that this should only be contemplated if democratic legitimacy is improved by a reweighting of votes to take due account of population. One of us opposes extension on principle."

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£5.5 MILLION EQUITY FUNDING OF VITACRESS

Led, arranged and structured by 3i plc
Equity provided by 3i Group plc
advised by 3i Legal • Legal advisers
to management Blake Lapthorn
Due diligence, Touche Ross

3i

NEWS: EUROPE

Strikes put France's recovery in doubt

A protracted dispute could deal a damaging blow to hopes of reversing a sharp slowdown, writes John Ridding in Paris

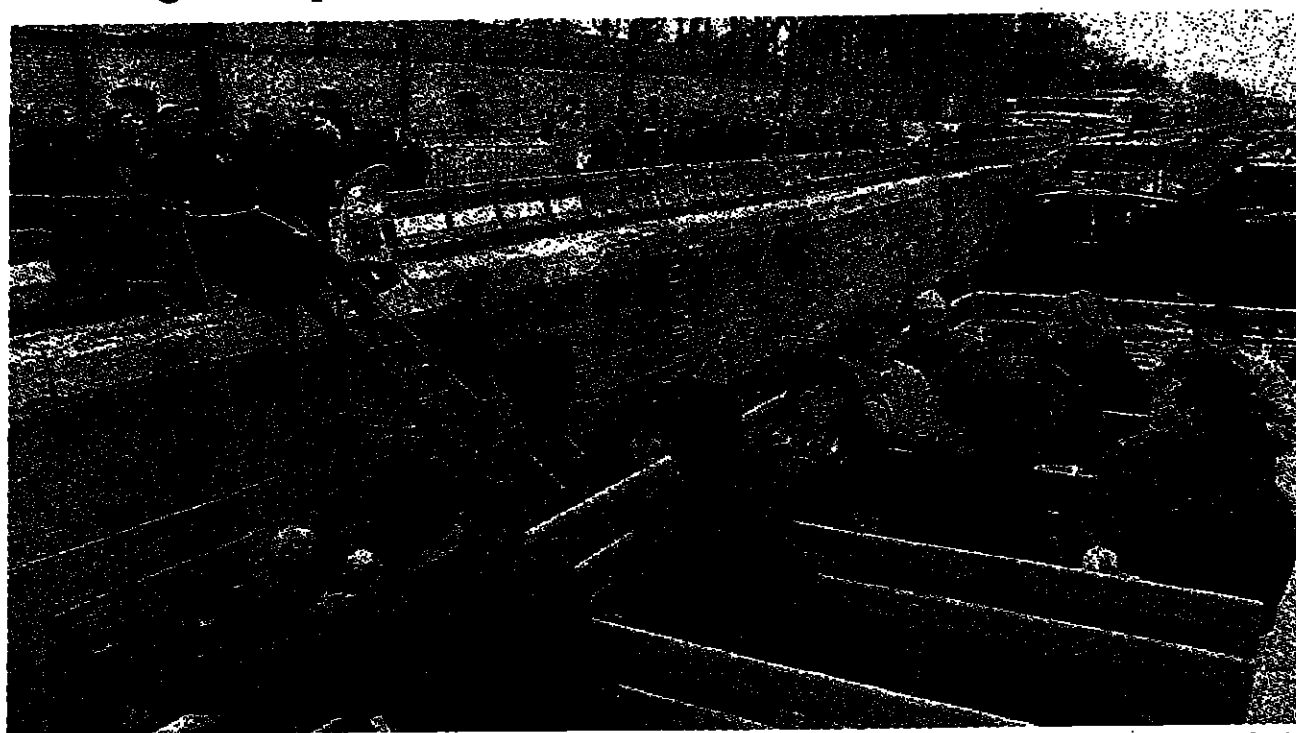
France's escalating strikes could scarcely have come at a worse time for the country's flagging economy and its struggling businesses. "You cannot take risks with an economy in convalescence," says Mr Franck Borotra, the industry minister. "The consequences could be catastrophic."

There is rhetoric in the minister's warning, reflecting the government's attempt to turn opinion against the public sector protests. But for certain sectors the threat is already real enough, while a protracted upheaval and anxiety in financial markets could deal a damaging blow to hopes of reversing a sharp slowdown in economic growth.

Those companies most exposed are in Paris and the surrounding Ile de France region where disruption has been greatest, and in industries most dependent on rail and public transport for their shipments, supplies or custom.

The retail sector in the capital has been hit severely. "There are more of us than there are of them," says a cashier at Galeries Lafayette, the department store, referring to the scarcity of shoppers. On average, shopping centres are reporting falls in daily sales of up to 40 per cent compared with the days prior to the strike, a particular blow in the vital pre-Christmas period.

Mr Jean Tiberi, the mayor of Paris, may allow shops to stay open on Sundays throughout December to help offset the downturn. "That may help," says one manager. "But the problem is that people just cannot get here." An emergency plan to charter almost 2,000 private buses to run between the suburbs and the city centre will ease the struggle for many



Parisian commuters board a Seine pleasure boat chartered by the government in place of strike-hit train and bus services. Boats dropped off passengers at 12 stops along the river in the city centre

trying to get to work, but will only partly offset the paralysis of public transport.

Industry has seen several victims. The car manufacturer Peugeot Citroën sent home two-thirds of the 11,000 workers at its Mulhouse assembly plant last Friday after running out of space to store finished cars. Staff returned yesterday, after stocks had been eased by the stoppage and the use of road transport. But the Force Ouvrière union yesterday

called for a national truckers strike. In the agricultural industry, Soufflet, Europe's biggest flour maker, has been forced to close its mills for export production because of accumulating stocks.

Some companies face the prospect of strikes spreading to their shopfloors. In addition to those state monopolies at the centre of the dispute, such as SNCF, the rail operator which is losing an estimated FF100m (\$30m) per day, public sector

companies such as Renault and Air France are being targeted by unions in their attempts to broaden the strike.

Mr Louis Vianet, head of the communist-led CGT, says the union has also stepped up efforts to extend strikes to private companies and claims success in persuading workers at an Atochem chemicals factory in western France to take action.

While specific strike victims are easy to find, it is harder to

estimate the overall impact on the economy. Insee, the national statistics institute, says it is too early to tell, but notes that a three-week rail strike in the winter of 1986-1987 reduced growth in the January-March period by 0.2 percentage points.

"If the upheaval is of similar duration, then there should be a very limited impact and lost production should be regained," says a senior economist at one French bank.

"However, a longer strike would bring lasting damage, and there are extra areas of concern the time around." Such concerns arise because the strikes are hitting the economy when it is already down.

Figures released last week showed that gross domestic product grew by just 0.2 per cent in both the second and third quarters, compared with 0.7 per cent in the preceding period. In addition, the industrial unrest threatens to exacerbate two underlying problems - weak consumption and high real interest rates.

Even without the physical problems of getting supplies, staff and clients to shops, weak consumption has emerged as a serious handicap for the French economy. Consumption fell by 4.4 per cent in October as households responded to the prospect of higher taxes to cut the welfare deficit, rising unemployment and a sense of political malaise which can only be heightened by the industrial unrest.

More serious, anxiety is also rising in financial markets. The sangfroid which greeted the outbreak of the strikes and Mr Alain Juppé's tough line has been replaced by jitters. The French franc has fallen by five centimes against the D-Mark since the middle of last week, trading yesterday at FF34.45. As a result, the Bank of France is having to apply the brakes to its policy of monetary easing, further threatening a business revival.

Faced with a stagnating economy and the prospect that its deficit-cutting drive could prove self-defeating, it is little wonder that the government is sounding the alarm bells.

Editorial comment, Page 17

EUROPEAN NEWS DIGEST

Greek PM said to be stable

Mr Andreas Papandreu, the Greek prime minister, regained consciousness yesterday for the first time in a week but doctors said efforts to remove him from a respirator were not yet successful.

"The premier's condition is stable and he is in contact with his surroundings," said Mr Panagiotis Poulis, head of the Onassis hospital where the prime minister is being treated.

Mr Poulis was forced to read the statement after none of the 15 doctors caring for Mr Papandreu, 76, wanted to brief reporters. The team includes the health minister, Mr Dimitris Karamanlis. Dr Grigoris Skalkas, who resigned as spokesman for the team on Sunday, said in a written statement that he quit because "the objectiveness of the briefing was placed in doubt".

The hospital said reporters would soon be barred from the building, that medical statements would be made in a tent outside the facility and any questions would have to be submitted in writing.

AP, Athens

Chechnya car-bomb kills 11

A car-bomb exploded yesterday in the centre of Grozny, capital of Chechnya, killing 11 people and further destabilising the region ahead of the Russian elections later this month. The explosion, outside the regional administration building, was the latest in a series of violent attacks in the Caucasian republic. Russian officials were quick to blame Chechen rebels for trying to undermine the poll scheduled to elect a new regional leader on December 17.

The renewed escalation of violence comes as Russian and Chechen officials appear to be making some progress in negotiating a political settlement.

On Sunday, Mr Oleg Lobov, the presidential representative in Chechnya, said Russia was close to approving a constitutional amendment which would cede considerable autonomy to Chechnya. But some Chechen separatists have condemned attempts to seek a negotiated peace and continue to press for full independence.

John Thornhill, Moscow

Turkish MPs fail to halt poll

A group of Turkish MPs yesterday failed in an attempt to postpone general elections scheduled for December 24 after they were unable to muster a quorum in a special session of parliament reconvened to consider the issue.

More than 100 MPs from several parties last week signed a petition that required parliament to reconvene, but failed to attain the quorum of one third of the 450-member parliament. The MPs are angry that their parties either refused to put their names up for re-election or relegated them to marginal constituencies.

Most of the dissatisfied MPs are drawn from the conservative True Path party of Mrs Tansu Ciller. She purged almost half the party's 165 MPs by removing long-serving politicians from the list of candidates, replacing them with technocrats, business leaders and top security service officials. Elections were not due until November 1996 but Mrs Ciller called snap elections following the collapse of her coalition government in the previous months.

John Barham, Ankara

Italians postpone some strikes

Transport unions suspended some of the strikes which threatened travel chaos in Italy today, following meetings with Mr Giovanni Caravale, the country's transport minister. Unions representing pilots, flight attendants and ground crew, public transport workers, train drivers, firefighters and air traffic controllers had announced separate plans for strike action.

Yesterday the pilots, flight attendants and railway drivers suspended the action after Mr Caravale said he was ready to discuss new rules on strikes and minimum services. But discussions were continuing with other categories of transport worker, amid general fears that unions were preparing for general disruption of pre-Christmas travel.

Today's planned strikes were not co-ordinated by the unions and the reasons for the threatened action varied from protests at pensions reform, to the air traffic controllers' dispute over contract renewal and the restructuring of the air traffic control authority.

Andrew Hill, Milan

European airline delays grow

European airline traffic is growing strongly but passengers are being hampered by a record number of flight delays, the Association of European Airlines said yesterday.

The association said passenger numbers grew 9.1 per cent in October, with strong increases in traffic across the north Atlantic and between Europe and the Far East. Traffic across the north Atlantic was up 11.6 per cent, while the increase to the Far East was 10.2 per cent. Overall seat capacity grew 7.2 per cent in October. Load factor, or seat occupancy, grew 1.3 percentage points to 73.1 per cent. The load factor on flights across the Atlantic was 79 per cent.

The association said, however, that in the third quarter of this year delays of more than 15 minutes increased to 20.4 per cent of departures from 17 per cent in 1994. In September, 25 per cent of departures were delayed for more than 15 minutes, which was the highest level ever. It said that provisional data for October indicated that the level of delays was nearly the same as in September.

Michael Skapinker, London

Latvian leader indexes low pay

Latvia's prime minister-designate Mr Zigmars Čerņevs, who is striving to form a new government two months after elections, promised yesterday to index minimum wages, pensions and other state allowances to inflation.

Mr Čerņevs also pledged to halt the rise in the budget deficit without giving details how this would be done. He backed an independent central bank, but said it should work closely with the cabinet.

His statement also said he would aim to pursue membership of the European Union but wanted to normalise relations with Russia which have been tense in the past. President Guntis Ulmanis last week asked Mr Čerņevs, leader of the Democratic party, to form a government after his first choice, Mr Maris Gribnauts, was rejected by parliament. Mr Čerņevs's coalition has the support of 51 deputies, giving him the narrowest of majorities in the 100-seat parliament.

Reader, Riga

Fininvest denies soccer bid

Mr Silvio Berlusconi's Fininvest business empire has denied it is holding talks with the German football association to buy the rights to broadcast German league football matches on pay-per-view television.

Earlier, the German football association had said Mr Berlusconi, former Italian prime minister, wanted to buy the rights. Mr Wilfried Straub, financial director for the German football association, said: "I do not know whether this offer is serious or not, we have asked for more details." He said an offer made by Compagnie Luxembourgeoise de Télédiffusion had been more precise than that made by Fininvest. Earlier, the daily Süddeutsche Zeitung had said Fininvest was offering DM200m (\$138m) a season for the broadcasting rights. Pay-per-view television has not yet been launched in Germany.

An Italian judge yesterday ordered 16 former MPs, including three ex-ministers, to stand trial on charges of corruption and misappropriation of funds during the 1990 Soccer World Cup hosted by Italy. The trial of Mr Vincenzo Scotti, Mr Paolo Cirino Pomicino and Mr Francesco de Lorenzo - former foreign, budget and health ministers respectively - and 13 others is due to start on April 12 in Naples.

The prosecution alleges the 16 misappropriated hundreds of billions of lire during administration of the San Paolo soccer stadium and construction work on a rapid train route which was never finished.

Reader, Rome

International resolve seen to weaken as UN peace force scaled down

By Laura Silber in Zagreb

International resolve to enforce the peace agreement in the Serb-occupied part of Croatia appears to be crumbling, endangering the settlement in neighbouring Bosnia.

Under an agreement reached in Dayton last month between President Slobodan Milosevic of Serbia and his Croatian counterpart, Mr Franjo Tudjman, eastern Slavonia will be peacefully integrated into Croatia within two years.

Mr Boutros Boutros Ghali, secretary-general of the United Nations, hoped to secure backing for a 9,000-strong international force to police the peace in Croatia's most easterly region. The force was due to be deployed under chapter seven of the UN charter, which allows tough enforcement measures to ensure compliance by the parties.

However, senior UN officials say that at a Security Council meeting this week Mr Boutros Ghali is expected only to find support for a 4,000-strong force.

The United Nations has condemned "in the strongest possible terms" the burning and looting of houses by Bosnian Croat forces, who are due to give up territory in western Bosnia under the terms of a peace agreement agreed last month at Dayton, Ohio, writes Laura Silber in Zagreb. UN officials privately believe the Bosnian Croat Army (HVO) could undermine the peace deal if they continue to pursue a scorched earth policy in areas they are expected to hand over to the Serbs. Already, the UN has observed similar activities in the Serb area of eastern Bosnia, known as the Sapna Thumb, which the Serbs are expected to trade with the Muslim-Croat Federation.

A week ago, UN observers in Mrkojelic Grad and Sipovo, towns in western Bosnia, reported that the HVO had burned down 30 per cent of the houses and were removing factory equipment in trucks from the area.

operating under the far weaker provisions of chapter six, which are used to sanction general peacekeeping.

UN and US officials now say privately they doubt that Washington will supply troops for eastern Slavonia, given that it is committed to participating in peacekeeping in Bosnia and that it would be difficult to persuade the US Congress to endorse further involvement. UN officials say failure to enforce the accord could jeopardise an overall peace settle-

ment in Bosnia. Mr Thorvald Stoltenberg, the UN negotiator who mediated the eastern Slavonia deal, warned that the fate of the region was "inextricably linked to the prospects for peace in former Yugoslavia".

There could be no durable peace in Bosnia, without a political resolution of the problem of eastern Slavonia. Aware of the urgency of this week's debate in the Security Council, in his acceptance speech for a peace prize in Rome recently, Mr Stoltenberg urged "the international community to commit generously to the peace process in eastern Slavonia".

Given Bosnian Serb fears that the Dayton agreement fails to offer any protection in the Serb suburbs of Sarajevo, failure to protect their kin in eastern Croatia could upset the entire peace deal. It would put additional pressure on Mr Milosevic at a time when he needs to bring recalcitrant Bosnian Serb leaders to heel while also demonstrating that he has Serb interests at heart.

Belgian biscuit company penalised

By Andrew Jack in Paris

A French court yesterday provided a formal declaration of "home-made biscuits" and heavily penalised a Belgian company for misusing it in its advertising.

Delacre, which is based in Brussels but is ultimately owned by Campbell Soup of the US, was ordered by a Paris judge to pay more than FF1m (\$200,000) "directly by the producer to the consumer".

Its verdict came after Belin, a rival French biscuit manufacturer, began a legal action in 1994 in which it claimed that sales of its own brands had

suffered following Delacre's launch of its products.

Belin sought FF10m in damages and interest after observing a "very significant" drop in sales for its "Boozy classique" and "Boozy Moelleux" range. It complained that the word "maison" could not be used to apply to Delacre's "industrial" biscuits.

Delacre replied in court that a consumer of average intelligence would not even for a moment have imagined that biscuits sold by large retailers would have been produced by artisan.

However, Judge Catherine Courcel of the 31st chamber of the correctional court of Paris

ruled against Delacre, ordering the company to pay Belin FF1m in damages, plus FF100,000 to the French Federation of bakers, and levying a further FF30,000 fine on Mr Joel Oberman, a vice president and marketing director. She also said the company must announce the judgment in two newspapers.

She said that Delacre's biscuits were sold in large retail stores, cooked in factories and made from "typically industrial" ingredients such as citric acid, palm oil and bicarbonate of soda.

Belin itself is no small supplier. It is ultimately owned by Danone, the large French food

group, which expressed its satisfaction with the judgment last night.

"We consider this a victory for the consumer," it said. "There is a temptation for all professions to go to the limit. There are things that you have a right to say and things you do not. There are relatively strict principles of advertising. This was confusing for the consumer."

Campbell Soup said: "We are surprised by the decision because we felt and continue to feel the use of this trademark is fully justified."

It said it was appealing against the judgment.

Vacancy for a prime minister. No experience necessary. Hugh Carnegie reports

Swedes await name of mystery leader

The confusion which has swirled around who will be Sweden's next prime minister deepened last night with conflicting reports about who will succeed Mr Ingvar Carlsson when he steps down from the post next March.

Swedish television said that Mr Göran Persson, the finance minister, was about to reverse his previous categorical refusal to take over as leader of Mr Carlsson's Social Democratic party. However, a spokeswoman for Mr Persson flatly denied that he had changed his mind.

Ahead of the Friday deadline imposed by the party for resolving the succession, most of his colleagues in the leadership were anxious that he should accept in order to begin the process of healing the party's deep divisions over the two most important policy issues it confronts.

These are the future of the welfare state and Sweden's membership of the European Union. The split has caused

support to leak heavily to the Left and Environment parties.

A dignified early retirement for Mr Carlsson, three years before the next election, and a smooth, uncontested transition was supposed to provide the way out of the party's difficulties. But all that went badly wrong.

The deputy party leader and likely successor, Ms Mona Sahlin, 38, was forced by a scandal over her private use of government credit cards to resign from the government.

The most authoritative alternative as party leader had appeared to be Mr Persson, but for weeks he categorically ruled himself out, in large part to preserve his private life.

Huge pressure was also put on Mr Jan Nygren, the low-profile but respected co-ordination minister. But he, too, has resisted strongly for personal reasons. A single father, he has promised his 14-year old son he will not take the job.

Their adamant resistance thrust forward Ms Ingegerd Thalen, the social affairs minister, as the most credible candidate who had not said No. She is backed by the powerful SDF women's organisation - but lacks top-level experience.

The succession issue has tended to obscure, but not damp, the fierce debate within the party about how to reshape Sweden's famously large welfare state in the wake of the recent crisis in the public finances - and over the role Sweden should play in the EU.

The ascension of Ms Sahlin was meant to provide a clear way forward. She was identified with the "renewers" or party modernisers - in the party. They argue for a slimmer, more efficient welfare system and for a greater degree of "citizen responsibility" to take some of the burden of public services off the state's shoulders.

Mr Persson and the other potential successors so far canvassed lie in or

close to the renewers' camp - but have a much less potent public image for selling the agenda. As finance minister, severe public spending cuts have made Mr Persson unpopular with the left of the party.

The outcome of these policy tussles is critical for Sweden as much as it is for the Social Democratic party which remains comfortably the largest party. The renewers accept that the state's role in the economy became too large. It reached 70 per cent of GDP in the early 1990s, easily the highest in the industrialised world. The traditionalist camp tends to overlap with the strong anti-EU feeling in the party.

This debate will intensify throughout the winter and culminate in a special party congress in March. Called to settle the policy agenda, the congress will now also be the occasion for the formal election of the new leader. It will provide a tracing start for whoever that person turns out to be.

سكرا من الاصل

Russian bank body enters sell-offs row

By John Thornhill in Moscow

A senior representative of the Association of Russian Banks yesterday pitched into the growing controversy about the country's privatisation programme by arguing that the transfer of state assets to commercial banks would produce no economic benefit and could even destroy some industrial sectors.

Mr Vladimir Bazaryan said the domestic banks in the process of winning control of the government's shareholdings in some of the country's most valuable industrial enterprises would bring no added value to management.

He said some recent examples of banks buying into industrial enterprises had even led to a fall in production and the destruction of the companies concerned.

Despite mounting criticism from many quarters, the Russian government appears determined to press ahead with its privatisation programme. It is scheduled to conduct more auctions this week to transfer packets of state shares in some of Russia's biggest oil companies to the private sector.

Mr Anatoly Chubais, the first deputy prime minister in charge of economic affairs, on Sunday stoutly defended the programme which is considered essential to raise funds to cover this year's budget deficit.

Mr Chubais said the controversial auction to transfer the state's shareholding in the giant Yukos oil concern would proceed as planned on Friday despite the opposition of three of Russia's most powerful banks. President Boris Yeltsin had fully supported the decision at a meeting he chaired last week, Mr Chubais said.

Mr Chubais criticised three banks that had urged the government to delay the Yukos auction after making allegations of malpractice against Menatep Bank, which is both conducting the auction and wants to make a bid.

He claimed the three banks - Indobank, Alfa Bank and Rossiyskiy Kredit - which themselves had wanted to bid for control of Yukos - were acting as proxies for foreign investors, who are barred from this particular privatisation.

And he lashed out at the banks' threat to dump their holdings of government securities if the auction was not delayed. "The banks' statement contained direct threats to ruin the currency and Treasury bill markets."

"Nobody can talk like that to the state because nobody is capable of doing such a thing," Mr Chubais told the Interfax news agency.

The government also announced yesterday it was committed to selling its 37 per cent shareholding in Rybinsk Motors this month by means of an investment tender. The purchaser of the shares in the country's biggest manufacturer



Chubais defended the government's privatisation programme

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The government also announced yesterday it was committed to selling its 37 per cent shareholding in Rybinsk Motors this month by means of an investment tender. The purchaser of the shares in the country's biggest manufacturer

of aircraft engines will be obliged to invest \$162.5m by 1996 to modernise the company's manufacturing equipment.

The controversy over control of Rybinsk Motors has been fierce and has even involved Mr Yeltsin. Mr Valery Shelgou, Rybinsk Motors' director general, has already voiced his opposition to the share sale, declaring it to be "illegal".

Romania forced to cool economy

Government imposes slowdown ahead of next year's elections, writes Virginia Marsh

The Romanian government is reluctantly being forced to tighten monetary policy to cool down an overheated economy, ending the prospect of a politically unpopular slowdown ahead of next year's election.

The central bank has increased interest rates at its one-week credit auctions several times in the last month and doubled to 40 per cent the compulsory minimum reserves for hard currency assets held by banks.

In frustration at having to take unpopular measures, the authorities have launched a crackdown on foreign exchange bureaux. They accuse the money changers of speculating against the leu, the national currency, allegedly contributing to a 30 per cent depreciation against the dollar in the past three months.

Over the last fortnight financial police have raided dozens of small Casa de Schimb that have sprung up in Bucharest since 1990, confiscating hundreds of thousands of dollars, held in leu and hard currency.

Government officials and the pro-establishment press accuse the exchange houses - which are only licensed to deal with tourists and the general public - of launching "speculative attacks" on the leu and of acting as "mini-banks" by dealing illegally with companies and engaging in money-laundering.

Economists say there is some truth in the accusations but also many more orthodox explanations for the collapse of the leu. "This crackdown on the exchange houses is a public relations exercise - a pure diversion," says one local economist. "The government and the central bank are to blame. They have allowed the economy to overheat and run up an unsustainable and unfinanceable current account deficit. The official market hasn't been working freely and the exchange house rates reflect more accurately the real value of the leu."

The exchange houses normally account for only 4-10 per cent of total foreign exchange transactions but there is a much larger "grey market" in which companies deal in foreign exchange among themselves.

The leu quoted at the exchange houses fell from around 2,100 to the dollar in early September to more than 3,200 in the middle of November, before stabilising at around 2,900 last week. The official reference rate - the average recorded in the daily inter-bank exchange market - fell from 2,060 at the beginning

of September to 2,160 in mid-October and was 2,541 yesterday.

The latest currency collapse has destroyed people's fragile confidence in the leu and has again encouraged a flight into hard currencies. Leu weakness was exacerbated by falling interest rates earlier this year and by a general perception that official inflation figures do not accurately reflect price increases. The collapse in confidence has undermined one of the government's greatest achievements over the last two years when renewed confidence in the currency led to a sharp rise in domestic savings, after years of high inflation which ravaged a currency

worth 12 leu to the dollar in 1990.

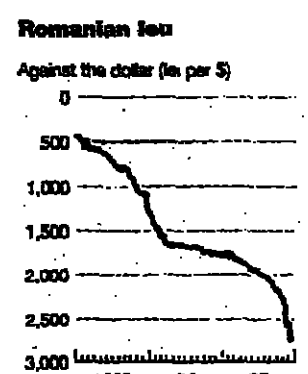
Romania is now heading for a current account deficit of around \$1.5bn this year, compared with \$400m last year. The deterioration is partly caused by increased imports of capital goods needed to modernise the economy.

But the inflow of consumer goods has also risen sharply this year as have imports by several large, loss-making state enterprises which have received cheap credits.

Romania's most pressing problem is that it cannot finance a current account deficit of this size.

It only re-entered international capital markets six months ago after an absence of more than a decade. Since 1990 when Romania first began to encounter balance of payments problems the country has had to rely mainly on credits from international financial institutions.

The government earlier expected to receive some \$500m in financing from the International Monetary Fund and the World Bank this year. But agreement with the IMF has been held up by concerns over the functioning of the exchange market and over the size of next year's budget deficit. A World Bank loan to the



Source: FT Intel

financial and enterprise sectors of \$250m cannot go ahead until Romania reaches agreement with the IMF.

In the meantime, the country's low reserves have fallen further because of the need to finance the current account deficit.

Central bank reserves fell from \$500m at the beginning of the year to around \$300m at the end of October. The net international reserves in the banking system fell from \$1.36bn to \$865m.

The central bank, which is supposed to be independent, started to warn some months ago that the economy was in danger of over-heating.

Exports rose by 28.2 per cent in the first half compared with the same period last year but imports jumped 37.6 per cent, partly because a sharp rise in real wages increased domestic consumption.

The government, a coalition of former communists and nationalist parties, has little alternative but to tighten monetary and fiscal policies and impose other austerity measures to secure IMF and World Bank funding for its external deficit.

Because of this, the exchange bureaux are feeling the government's wrath.

German FDP may reshuffle its cabinet members

By Peter Norman in Bonn

The Free Democrat party (FDP), junior partner in Germany's centre-right coalition government, is bracing itself for an early change among its three ministers in the cabinet of Chancellor Helmut Kohl.

Mrs Sabine Leutheusser-Schnarrenberger, the justice minister, has indicated that she will resign, probably next week, if a referendum of party members supports the bugging of private homes in the battle against organised crime.

The bugging issue has long divided the FDP which decided to put it to the vote of its membership in September. Although only 38 per cent of the eligible votes have so far been cast ahead of a final deadline next Monday, press reports have suggested that the party membership will back bugging.

Mrs Leutheusser-Schnarrenberger, who is on the party's left wing, made clear in a television interview late on Sunday that she would not welcome such an outcome. She said she felt "very committed" to an earlier FDP election pledge not to introduce the bugging of private homes.

This statement yesterday strengthened expectations that the justice minister was preparing her departure in the event of an adverse vote.

Not surprisingly, in the light of last week's rash of rumours about early elections in Germany, it also fuelled speculation of a wider reshuffle among FDP cabinet members to boost the party's flagging electoral fortunes.

The latest rumours have suggested that Mr Günter Rexrodt, the economics minister, may also be shuffled out of the cabinet to give the FDP a new look ahead of important state elections on March 24.

Mr Rexrodt has denied such a possibility, but he has suffered a number of setbacks. The FDP under his leadership managed to win only 2.5 per cent of the vote in October's Berlin elections while the plan to liberalise shopping hours, in which he invested much political capital, has run into resistance.

The reshuffle speculation has rarely touched on Mr Klaus Kinkel, the foreign minister and former FDP leader, although his position has been weak since a Bundestag vote against his policy of maintaining relations with Iran.

Deutsche Telekom to cut private call rates

Deutsche Telekom is expected today to approve a package of rate cuts for private customers in a deal to gain regulatory approval of plans to offer big discounts to businesses. Reuters reports from Bonn.

The German minister of posts and telecommunication, Mr Wolfgang Bötsch, said the government had not presented Telekom's planned rebates for approval at yesterday's meeting of the telecommunications regulatory council pending additional proposals from Telekom.

"Telekom has said that it will now also do something for residential customers," Mr Bötsch said. "We will not be able to decide this year, but it is possible that if all conditions are met the rebates could take effect retroactively to January 1."

The council, made up of an equal number of representatives of parliament and the federal states, is concerned that rebates of up to 35 per cent for business customers will lead to higher residential tariffs and impede competition.

The regulatory council is now expected to discuss the tariff package at its next meeting on January 23.

Deutsche Telekom confirmed that the management board would meet today and that the company had proposed offering discounts for private customers, but gave no details about the planned rebates.

The ministry said that Telekom's management board would meet to approve a tariff package for private customers that could include discounts for frequently-called numbers and for use of online computer services.

Telekom's proposed rebates are part of a tariff reform that was approved by the government in 1994 and is set to take effect next year. Through restructuring tariffs the reform seeks an across-the-board cut in charges of 5 per cent.

But moving to head off competition as the German telecoms market is gradually deregulated, Telekom has been sharply cutting rates for business customers and long-distance calls. The 1996 tariff reform seeks to offset big cuts in long-distance rates by raising rates for some local calls. Local call rates have been criticised by the regulatory council and industry officials because of the cost to consumers using online computer services.

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Opposition advances in Venezuela vote

By Stephen Fidler,
Latin America Editor

The political party which has governed Venezuela for most of the 37 years since democracy returned has staged a comeback in regional elections.

The Democratic Action (AD) party, whose popularity sank under the then president Mr Carlos Andrés Pérez in the early 1990s, yesterday claimed 13 of the 22 governorships at stake on Sunday. The claims were backed by opinion polls released before official results became available. The party now holds eight governorships.

Unofficial returns also suggested AD

had won the mayoralty of the capital, Caracas, against the left-wing incumbent, Mr Aristóbulo Istúriz, and more than half the 320 mayoralties at stake.

The elections have underlined the unpopularity of the government of President Rafael Caldera, which came to power in January 1994 at the start of a severe banking crisis. Mr Caldera's Convergence coalition has won one governorship in its own right and another three in co-operation with other parties.

High inflation, recession and growing unemployment have generated strong criticism of the way the government has handled the economy. The government is talking to the International

Monetary Fund about a stand-by loan of up to \$3bn which would entail a switch in the control-oriented economic policies so far pursued by the government. The electoral turn-out was put at 30 to 35 per cent, indicating much voter apathy, which benefited more organised parties such as AD. However, the leader of the left-wing MAS party claimed AD had carried out national fraud.

Mr Pérez, under house arrest since July 1994 for alleged misuse of public funds while in office, was allowed to leave his house to vote on Sunday. The Supreme Court is to decide on his case early next year, but he is increasingly thought likely to be acquitted or to

receive only a light sentence.

"One of Caldera's few successes has been in reviving the fortunes of two groups that were severely weakened: the trade unions and AD," said one diplomat in Caracas. Agencies add from La Paz: The ruling coalition has an early lead in Bolivia's municipal elections, held on Sunday, and was expected to win mayoralties in half the country, preliminary results indicated. Two thousand council seats were being contested in 309 municipalities. The vote was seen as a referendum on the government's attempts to privatise state entities. Final results will not be available for a week.

Salinas offers to defend himself

By Leslie Crawford
in Mexico City

Mr Carlos Salinas, Mexico's former president, has offered to break his self-imposed exile to defend himself against accusations of concealing economic crimes allegedly committed by his elder brother Raúl and other political associates.

In a letter published yesterday in Mexico, Mr Salinas said he was being pilloried by the country's discredited political elite as Mexico's "favourite villain". "The struggle for political power has become as tough as the economic crisis itself - except that the former seems to know no bounds," he said. "Nothing that has happened in Mexico this year is unconnected to the tremendous fight for power."

Mr Salinas has not entered Mexico since he abandoned the country in March, shortly after Raúl was jailed on charges of murder. He is believed to have taken up residence in Cuba. "I am willing, as I always have been, to put myself at the disposal of any investigation, even a legal one," he said.

The controversy surrounding Mexico's former ruling family has shifted from the murder charges against Raúl, to the wealth amassed by the Salinas clan while Carlos was in office. Prosecutors say they are preparing to indict Raúl on charges of illicit enrichment, following the discovery of his secret bank accounts in Switzerland which, according to Bernese police, contained almost \$84m.

In his letter, Mr Carlos Salinas said he had been "deceived" by his brother Raúl. "From the beginning of my presidency I asked him not to get mixed up in business."

Last week, the opposition Revolutionary Democratic party (PRD) demanded that Mr Carlos Salinas be brought to Mexico to face a "political trial" before Congress due to alleged irregularities in the sale of Telmex, the state-owned telecoms monopoly.

AMERICAN NEWS DIGEST

UAW strike ends at Caterpillar

The United Autoworkers Union in the US has called an end to its 17-month-old strike against Caterpillar, the heavy equipment-maker, although its members had soundly rejected the company's latest contract offer, in a weekend ballot.

The Detroit-based union, which recently elected new leaders, called off the action after deciding that the company had not been seriously affected by the strike, which involved about 13,000 workers. Caterpillar, in fact, posted strong profits, by using temporary replacements and rotating administrative employees into its factories.

UAW leaders decided the strike's lack of impact made it a liability ahead of industrial bargaining with the big US auto companies next year. Strike benefits for members had been a drain on union funds. More than 4,000 UAW members had broken ranks and returned to work voluntarily during the action, leaving about 3,700 workers affected by the UAW's weekend surrender.

The dispute, which also led to a six-month strike in 1991, arose from work rules and union demands for industry-wide bargaining. Rank and file members said they were "disappointed" by Caterpillar's latest contract offer, which included no wage increase, limited job security for new workers, and gave the company flexibility that could eliminate overtime pay for night or weekend work.

Laurie Morse, Chicago

US senator to stand down

The US Senate is to lose another of its more experienced members, following the decision by Wyoming's Mr Alan Simpson, 64, not to stand for re-election next year. The Republican moderate, known for his sharp tongue and critical views on the media, yesterday confirmed he had lost the drive to go for a fourth term. His departure brings the tally of retiring senators to 12, and makes him the fourth Republican to withdraw to date.

Observers said his decision to quit after 17 years in Congress and at a relatively early age would further sap the resources of the Senate and its ability to take the long view. Mr Simpson, once a leading Republican spokesman on immigration, has lost influence as more strident voices have emerged. His independent line on a range of issues was reported to have cost him a position as party whip when the Republicans gained the Senate majority in 1994. He set out on collision course with his colleagues when, shortly afterwards, he said losing had freed him to forge alliances with the Democrats.

Economy made 'soft landing'

Mr William McDonough, president of the Federal Reserve Bank of New York, said the US economy appeared to have achieved a soft landing, combining low inflation, steady growth and low unemployment. But he warned the Fed must remain vigilant to achieve long-term price stability - this did not mean the central bank should abandon its concern for job and economic growth.

"Disciplined monetary policy has sharply reduced inflation, and inflation expectations," Mr McDonough told America's Community Bankers. "It has contributed importantly to the removal of numerous structural imbalances that had developed in the 1980s," he added.

Chile's consumer prices rose 0.1 per cent in November, down from 0.6 per cent in the equivalent month last year and 0.8 per cent in October, the government said. The figure brought inflation so far this year to 7.9 per cent and, over the last 12 months, to 8.2 per cent.

Reuter, Santiago

Moving to a new beat

Sarita Kendall reports from Cali, the Colombian city trying to lose its drug-trafficking reputation

The days are gone when a Colombian drug baron would take over one of the top hotels in the southern city of Cali and fly in an orchestra for a birthday party.

With six of the seven Cali cartel chiefs behind bars, there is a sense of relief in the city and *calleños*, known for their party-going, are picking up a different tempo.

"We need to take stock and turn problems into opportunities using the competitive advantages of the region," says Mr Fabio Rodríguez, executive president of the Cali chamber of commerce.

However, the effects of living with one of the world's biggest criminal organisations for more than 10 years are not so easily shaken off. Furthermore, the imprisonment of the leaders has not put a stop to trafficking - others continue to operate, albeit without the same penetration of local institutions and authorities.

While the drug baron Pablo Escobar was being pursued in Medellín, in Colombia's north, the Cali traffickers kept as quiet as possible and accumulated more and more of the cocaine business.

Once Escobar was killed, the government's attention, with considerable prodding from the US, turned to the Cali organisation.

For more than a year, a special force combining army and police units raided offices, companies, ranches and apart-

ments linked to the cartel, unearthing sophisticated communications equipment and detailed accounts books and payment lists which are now the basis for corruption investigations reaching to the highest levels of Colombian politics.

The searches continue - particularly for the last and probably most violent of the cartel leaders, Helmer Herrera - but the pressure has eased. One encouraging sign is that the upward trend in homicides has been broken: the number of murders fell by 117 to 1,853 from January to October 22 compared with last year.

"I think the surrender of the chiefs has influenced this - the drug organisation, with all the bodyguards and hangers-on and the accounts they settle between them, breeds violence," said Mr Francisco Murguetio, special peace and security adviser to the mayor. He believes that a measure prohibiting male passengers on motor bikes also helped to reduce the homicide rate. Pillion riders often carried out professional killings.

"But crimes against property are growing - for example, bank robberies."

A programme to provide jobs for more than 300 former cartel employees and sacked policemen is being run by the provincial government. It includes training in managing small businesses - for instance, clothing and restaurants - and

sessions on the peaceful resolution of conflicts.

"Some of them are already working. The aim is the social and economic re-integration of these people, who are now earning a fraction of what they did before. They have to understand that it takes time to build a legal business," said Mr Manuel Romero, the director of the programme.

The collapse of the local construction boom, which was fuelled by drug money, has also left many unemployed. A recent study by Cali real estate specialists estimates that some \$500m a year was invested by traffickers in property during 1991-93.

Construction is down nationally but the impact on Cali, especially on the top end of the market, is far greater.

"Everyone concentrates on the illegal economy. That's only a small part of what Cali is. The real, solid economy has been built up over nearly a century," said an economist at the chamber of commerce, reflecting a general discontent at the way Cali's name has become internationally synonymous with drugs.

Although regional gross domestic product has been growing more rapidly than the national economy in recent years, Cali has not been able to attract new foreign investment.

The 60 or so multinationals that arrived from the 1950s to the 1970s are more geared to



The party's over: Cali drug baron Jorge Rodríguez Oriuela was displayed by Colombian police after his arrest earlier this year.

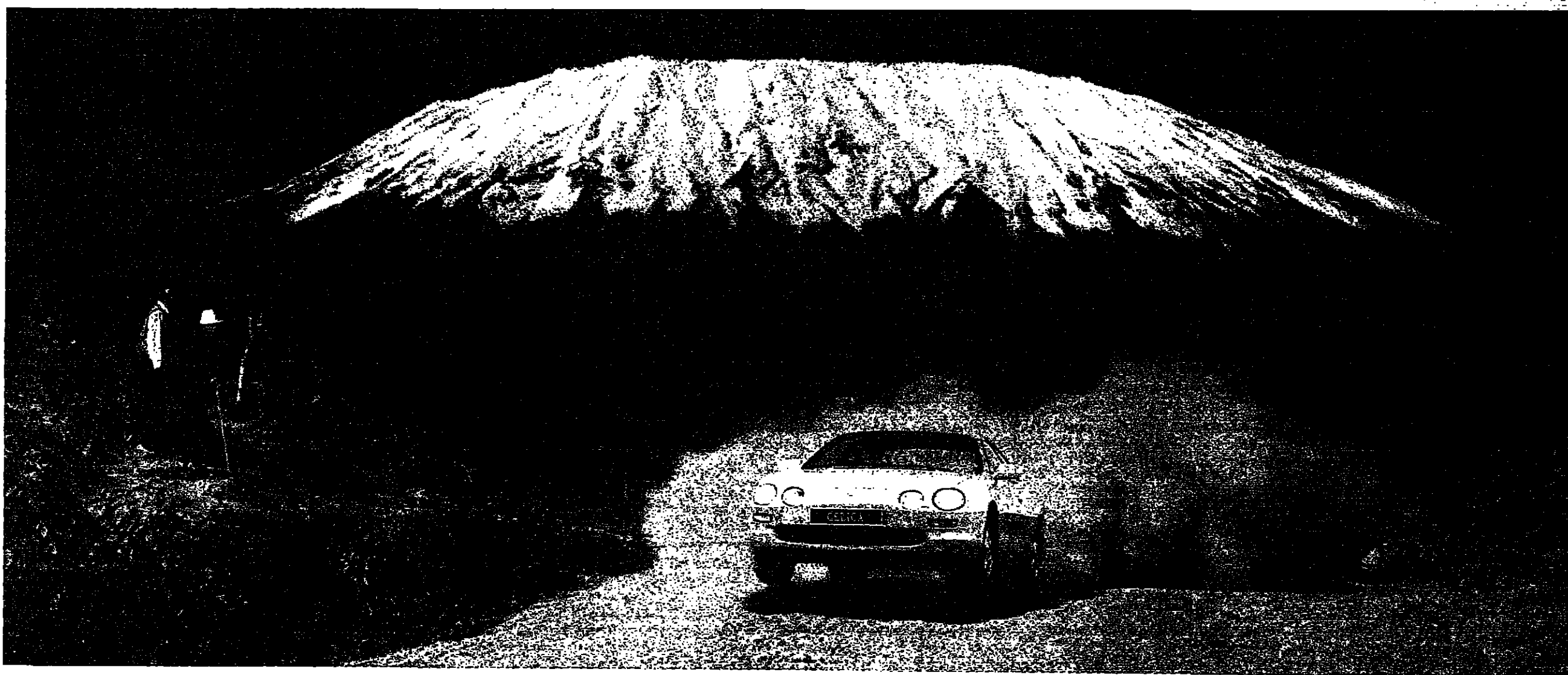
domestic than to foreign markets and have had difficulty adjusting to import liberalisation.

With a population of 1.7m, Cali has outgrown its urban and regional infrastructure. A Pacific free trade complex is being built and there are plans

to create a world trade centre as well as five decentralised industrial parks.

Business and political leaders are anxious to put the cocaine era behind them and look ahead; others fear that the present situation may be a phoney calm.

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صكرا من الامين

\$240m BP acetic acid plant for Chongqing

By Geoffrey Crothall in Beijing

British Petroleum yesterday signed a \$240m joint venture agreement to build an acetic acid plant in the south-western Chinese city of Chongqing. The deal is BP's largest direct investment in China and will provide the cornerstone for an additional \$1bn in direct investment by BP in China's chemical industry over the next few years. Demand in China for acetic acid, an organic chemical used extensively in the textile, paint, electronics and food industries, currently exceeds supply, especially in western China, where production is negligible.

BP Chemicals and Shanghai Petrochemicals are negotiating establishment of an acrylonitrile plant and BP is also holding preliminary discussions with companies in Daqing, in north-east China, for another acetic acid plant.

Mr Bryan Sanderson, chief executive of BP Chemicals, said the company was "very close" to signing a \$400m deal with Shanghai Petrochemicals for a plant which would produce 250,000 tonnes of acrylonitrile a year.

BP Chemicals will initially concentrate on developing three key technologies in China - acetic acid, acrylonitrile and polyethylene - and then may move into basic products, such as ethylene, propylene and oil refining.

BP has already invested about \$200m in oil exploration in China, but without any commercial discoveries.

The joint venture signed yesterday with China Petrochemical's Sichuan Vinyl works in Chongqing is expected to come on stream towards the end of 1996 and have an initial capacity of 150,000 tonnes a year, making it the largest acetic acid plant in China. Capacity could significantly increase, Mr Sanderson said.

BP has a 51 per cent equity stake in the joint venture. Yangtze River Acetyls with Sichuan Vinyl holds 44 per cent, and Chongqing Investment and Construction Company holds 5 per cent.

East Europe's prospects brighten

Study sees cautious hopes for an end to Russia's six-year slump and 6% growth in Poland and Albania, but output in other CIS nations will keep falling, writes Frances Williams

Economic prospects for eastern Europe look bright next year and there are grounds for cautious optimism that the six-year slump in Russian output may be coming to an end, the United Nations Economic Commission for Europe says in a report published today.

However, further falls in output are predicted for most other members of the Commonwealth of Independent States, whose economies are heavily dependent on Russia. The Geneva-based ECE expects growth in 12 eastern European economies to average about 4.5 per cent this year against 4 per cent in 1994, rising to 5 per cent in 1995.

Economic activity is rising fastest in Poland and Albania, where growth is predicted at 6 per cent or more this year.

The report says this recovery appears to be broadly based across agriculture, industry and services, and is being fuelled by an upturn in fixed investment as well as private consumption.

Domestic machinery producers and construction companies have benefited but consumer goods industries are

struggling to fight off competition from imports.

This is reflected in a sharp deterioration in foreign trade and current account balances, the ECE notes. The recorded trade deficit more than doubled from \$4bn to nearly \$9bn between the first halves of 1994 and 1995, though the report says large-scale smuggling in some countries may exaggerate the gap.

Exports (in depreciated dollars) rose about 27 per cent in the first half of 1995 compared with the year-earlier period, but imports soared by 38 per cent.

Stripping out currency effects, export volumes may have risen by some 8-10 per cent on average in the first six months of this year and imports by 18-20 per cent.

Eastern Europe's overall current account deficit swelled to \$4.9bn in the first half of 1995 from \$1.7bn a year earlier. At present there are no financing difficulties, with more than sufficient inflows of foreign capital leading to a rebuilding of foreign currency reserves.

But the ECE warns that at some point worsening current



Grain train leaving St Petersburg's port

European transition countries' foreign trade 1993-95

	Value (1994)	1993	1994	Growth (%)	Value (1994)	1993	1994	Growth (%)
Exports	\$70.2bn	-8.1	16.4	26.8	\$29.5bn	10.4	9.9	37.7
Imports	\$94.3bn	4.5	8.4	38.5	\$29.5bn	-27.5	5.2	16.8
Trade balance	\$-24.1bn	-14.6	13.1	32.5	\$7.0bn	15.5	17.0	20.3
Ratio exports/imports	0.74	44.3	13.2	32.9	\$2.3bn	75.0	23.1	24.9

Figures for the same period of 1994. Source: National statistics and other communications from national statistical offices to UN/ECE secretariat, ECE Statistical Committee

account balances could constrain growth. In certain countries the rapid expansion of imports over exports may indicate emerging supply-side and competitiveness problems, it says.

Countries should also beware of reliance on "fickle" private capital flows from abroad, which have proved unexpectedly large this year.

In Russia the ECE is predicting a drop in GDP for 1995 of about 4 per cent, less than

expected at the beginning of the year, and a big deceleration from the 15 per cent drop in 1994. Industrial output has been fairly stable since early 1995, the report notes.

But it takes a cautious view of future prospects, given uncertainties over the outcome of the current stabilisation programme and popular discontent with economic reform.

By contrast with eastern Europe, Russia is running big trade and current account sur-

pluses, with export growth far outstripping import growth. This has proved bad news for other CIS members which do most of their trade with Russia. Their problems have been compounded by defective international payments arrangements, the ECE says.

Economic Bulletin for Europe, Vol 47 (1995). Available January 1996 from UN Sales Section, Palais des Nations, CH-1211 Geneva 10. Fax +41 22 817 0064, \$55.

WORLD TRADE NEWS DIGEST

Japan upset by CD-Rom move

The Japanese government may lodge a complaint over the EU's reclassification of CD-Rom drives, which has raised import tariffs from 3.9 per cent to 14 per cent. "We do not think this is an appropriate measure. Without a proper discussion of this matter, we cannot accept this move," the Ministry of International Trade and Industry said yesterday. The EU recently announced that CD-Rom drives, which had been classified under computer accessories, would be classified as a device for audio-visual recording and replay. The reclassification and rise in import duties puts the EU out of line with countries, including the US and Japan, which classify CD-Rom drives as computer accessories. Miti is considering its options in responding to the EU move, including a complaint through the World Trade Organisation. Japanese makers and users of CD-Rom drives said the higher tariffs were a serious blow to their international operations. Sony, one of the top three makers of CD-Rom drives, said it was discussing with members of the industry association how to deal with the matter. *Mitsuo Nakamura, Tokyo*

Chile Mercosur talks stall

Negotiations for a free trade agreement between Chile and the Mercosur customs union - Argentina, Brazil, Uruguay and Paraguay - have stalled, frustrating hopes of reviving an outline deal to a Mercosur heads of state meeting on Thursday. Technical experts met in Montevideo last week to finalise the deal but talks foundered over Chile's desire to protect its traditional farming sector, principally wheat, sugar, rice, maize, oilseeds and beef and milk producers, from a rapid phasing out of tariffs. Chilean grain and meat producers have argued that they are less competitive than their Argentine or Uruguayan counterparts.

In Chile the main champions of a closer relationship with Mercosur are the manufacturers' associations, and service industries such as banking and insurance, who foresee growth for their area from increased trade and greater physical integration. *Imogen Mark, Santiago*

Contracts and ventures

Raytheon, the US defence group, has signed a \$150m (US\$118m) deal to supply a new air traffic control system for the Royal Australian Air Force. The US group has joined forces with Stanlite Electronics, a local company, to replace air traffic control radars at six ADF airfields as well as transportable tactical facilities at the Richmond base, near Sydney. The contract also provides for the upgrading of data-processing and display systems. *Nikla Tait, Sydney*

Istanbul-based Onur Air has acquired one Airbus A321, and become a new customer for the Airbus Industrie. The 230-seat twinjet will be delivered in mid-1996 and powered with International Aero Engines (IAE) V2500 motors. Onur, a charter airline, flies five leased A320s and plans to lease two more A321s, due to be delivered in 1996. The average cost of an A321 is around \$54m. *Reuters, Paris*

Bombardier, the Canadian-based aerospace and transit equipment group, has made a breakthrough with its 50 passenger Regional Jet in the Asia-Pacific region. Malaysia's new regional airline Sasega, is buying one RJ, plus two turbo prop commuter aircraft, and has taken an option on two more turbo props. The total value of the deal is calculated at \$8100m (US\$73m). *Robert Gibbons, Montreal*

Swedish telecoms group Ericsson has won an order to supply a digital mobile telephone system in Hokuriku, north-west Japan. The order is worth \$5200m (\$30m) and the system is expected to be operational in 1997. *Reuters, Stockholm*

Batam airport plans improvements

By Manuela Saragosa in Jakarta

Indonesian authorities have started construction of an aircraft maintenance facility on Batam Island to upgrade the island's airport and promote its role as an international flight hub for south-east Asia.

Batam, which lies 20km south-east of Singapore, and its surrounding islands are being developed as an industrial and tourist centre together with Singapore government authorities. Batam's airport is a centre for cargo for the island's industrial estates.

Batam's Hang Nadim airport, controlled by the Indonesian government and due to be inaugurated by President

Suharto next week, recently had its runway extended to 4,000 metres to accommodate wide-bodied aircraft.

PT BAM, or Batam Aircraft Maintenance, is scheduled to complete a hangar at a cost of Rp18bn (US\$8m) by the end of next year, according to local press reports.

The official Antara news agency reported Indonesia's Air Force Chief of Staff, Marshall Rilo Pambudi, saying that PT BAM would service airlines which Singapore's Changi airport cannot accommodate. Marshall Pambudi said they handle different types of aircraft including Boeing 737 jets.

PT BAM is majority-owned by Indonesian stakeholders

including the state-owned aircraft manufacturing company IPTN and Sempati Air, a private domestic airline, controlled by one of President Suharto's sons. Singapore Technologies Aerospace, a unit of government-controlled Singapore Technologies, also has a 25 per cent stake in PT BAM.

Critics note that Batam's ambitions as an alternative international flight hub are still hampered by high costs; aviation fuel, for example, is about 20 per cent more expensive on Batam than in Singapore. In addition, Singapore's Changi airport controls flight information in parts of Indonesian airspace, including Batam.

The latter has been a point of some friction between

Indonesia and Singapore although the boundaries of flight information regions were revised in September this year when President Suharto made an official visit to Singapore.

Indonesia was given control of air traffic services over an additional space stretching from south of the Indonesian island of Sumatra to the Natuna islands in the South China Sea but Singapore's Changi airport retains supervision of aircraft movements from airports in Batam and neighbouring Bintan island.

The Indonesian authorities want Batam's Hang Nadim airport to act as a transit and connecting point for international flights, although they admit this aim is a way off.



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International branches: 617	Money's: 4th
Number of dealing desks: 88	S&P: AA
Total assets: US\$ 4.9 billion	BCA: AA
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NEWS: INTERNATIONAL

US to quit Unido and may default on payment arrears

By Ian Hamilton Fazez in Vienna

The US yesterday confirmed its withdrawal from the United Nations Industrial Development Organisation at the end of next year but warned it was also likely to default on arrears and current contributions totalling more than \$50m (\$31m), even though they are legally binding.

Unido has been heavily criticised because of its past reputation for ineffectiveness, bureaucracy and excessive num-

bers of highly paid staff at its Vienna headquarters.

The immediate impact will be an emergency budget to be presented to Unido's general conference in Vienna today. About 230 jobs out of nearly 1,000 will be lost immediately. The US has contributed a quarter of Unido's regular budget since it was founded in 1966. About 80 per cent of costs go on staffing.

Mr John Ritch, US permanent representative to Unido, said it would be difficult to get any more cash because of budget-

ary constraints and lack of consensus between the White House and the Republican-dominated Congress, where there was already hostility to Unido and several other international organisations. He admitted the contributions were legally binding and the US risked being in default, but it would try to minimise shortfalls to prevent damage to Unido as the US disengaged.

Unido was immediately promised continued support by the EU - but no extra money. Mr José de Yturriaga Barberan,

speaking for the EU at the conference, said Unido's attempts to reduce bureaucracy and become more cost-effective were moving too slowly. The EU wants "quantitative data" showing the progress of reform by June 30 next year.

However, Mr Barberan urged all countries to comply with their legal commitments to pay their contributions, which are assessed and apportioned on the basis of national wealth.

The UK's contributions were \$5.4m in 1994-5 and \$6.3m in the current year. It

pays on time and has also contributed \$3.5m from its Knowhow Fund to help east European industries modernise and cut pollution.

The Group of 77 non-aligned, developing countries said Unido's reform process had been "undermined" by cash crises resulting from the US's arrears. However, Mr Mauricio de Maria Y Campos, brought in two years ago as the director general to reform Unido, said later that 95 countries had paid nothing this year, 13 had made part payments and only 56 had paid in

full. Mr Thomas Klestil, president of Austria, opened the conference by pledging Austria's continued support and promised to keep paying fully and on time. "Everyone must share in the process of reform and all must meet their obligations," he added.

Mrs Benita Ferrero-Waldner, the Austrian foreign secretary, said the US withdrawal threatened one of Vienna's biggest local employers. See editorial comment

Delays feared in implementing fish stocks treaty

By Alison Maitland

The first global treaty designed to protect fish stocks on the high seas, agreed four months ago, is already running into difficulty, conservationists warned yesterday.

The agreement was opened for signing at the United Nations in New York yesterday, with at least 30 of 112 countries taking part in the negotiations expected to join up immediately.

The treaty is designed to conserve species of fish which migrate over wide areas, such as tuna, or move between international and coastal waters, accounting for about 30 per cent of world fishing.

Mr Satya Nandan, Fiji's UN ambassador who chaired the talks, said the provisions for enforcing conservation were "stronger than I ever expected to achieve consensus on".

However, the World Wide Fund for Nature feared that regional fisheries organisations charged with implementing the treaty were dragging their feet.

"We don't have a lot of time for fisheries," said Mr Michael Sutton, fisheries campaign director for WWF International. "This is not a speculative future threat. This crisis is happening now."

Some 70 per cent of fish stocks are either fully exploited, overfished, depleted or rebuilding after previous overfishing, according to the UN Food and Agriculture Organisation.

Mr Sutton said the interna-

tional Commission for the Conservation of Atlantic Tuna (ICCAT), a regional fisheries organisation which includes the US, Canada, Japan and Spain, last month voted down as "premature" a US resolution to set up a working group to examine how to implement the treaty.

"Everyone was very optimistic in the summer," he said. "But now it comes to putting their money where their mouths are, the whole thing is beginning to break down."

The agreement gives regional fisheries organisations responsibility for regulating and enforcing "sustainable fishing practices" in areas under their jurisdiction, including setting standards for reporting and verifying catches. A resolution before the UN General Assembly calls on countries to implement the agreement provisionally, because it will not become binding until ratified by national parliaments of 50 countries, which could take up to two years.

Mr Sutton said some countries such as Spain, with the EU's biggest fleet, were insisting on inserting their own interpretation of parts of the treaty before signing up.

An internal legal wrangle is holding up EU signature. The Commission, council of ministers and some countries, including the UK, think member states and the Commission should both sign. Other member states say only the Commission need sign.

Loosening banks' hold on Israeli business

Government seems determined to reduce ownership concentration in the economy, writes Julian Ozame

The Israeli government appears determined to break the domination of the country's leading banks on business and reduce the concentration of ownership in the economy.

An official Treasury committee recommended on Sunday that Israel's leading banks be forced to sell off many assets in non-financial companies.

If adopted as expected, the recommendations would lead to a reduction in the traditional concentration in the Israeli economy and promote competition - but would impair banks' profitability and could derail government efforts to privatise state-run banks.

The cabinet has to decide by mid-month whether to adopt the recommendations.

On one side of the debate that will take place before then is the Treasury and the central bank. They have long waged a battle to break up Israel's powerful banking groups and separate them from their non-financial assets. On the other side are the banks themselves and the investors bidding for a controlling stake in Israel's biggest bank.

At the centre of the debate are Israel's two biggest banks, Hapoalim and Leumi. For historic reasons Bank Hapoalim, traditionally owned by the Histadrut trade union federation, and Bank Leumi, traditionally owned by the Jewish Agency, the Israeli "government-in-waiting" before the creation of the state of Israel, played pivotal roles in early Zionism and the creation of the economy of the Jewish state.

By the time they were nationalised during the banking crisis

Israel's two largest banks: their main holdings*

Bank Hapoalim

Koor Industries (holding company) 23% (Shk178m)
Makhteshim (chemicals)
Tadrian (electronics, telecommunications)
Agan (chemicals)
Grant (petroleum distribution)
Middle East Tube Company (metal and pvc products)
United Steel (metal products)
Merhav (building materials)
Clal Israel (holding company) 33.9% (Shk559m)
Clal Industries
Clal Trading
Clal Insurance
Clal Electronics
Ordan (iron and steel products)
Asorim (construction, real estate)
Yotam (building materials)



Klan (textiles)
American Israel Paper (paper products)
Polgat (textiles)
Delek (petroleum distribution) 25.5% (Shk228m)
Petrochem (petrochemicals)
Hapoalim Investments 45.4% (Shk134m)
Teledata (telecommunications)
Amgal (US holding company) 52.7% (Shk274m)
Dair (building and development) 100% (Shk90m)

Bank Leumi

Africa Israel (construction, hotels, real estate) 50.4% (Shk457.3m)
Poker Plaza (real estate, construction)
Af Sar 49% (Shk101.4m)
Leumi Insurance Holdings 27.7% (Shk101m)
Trust Insurance Agencies 100% (Shk16.6m)



*Source: Bank of Israel, Ministry of Finance, the banks Hapoalim and Leumi

of 1983, which followed a share manipulation scandal and a collapse in bank shares, they had come to dominate the financial sector and hold huge stakes in many of Israel's biggest non-financial companies.

According to a Treasury sponsored report the two banks hold Shk188bn (\$40bn) of deposits, 64 per cent of total deposits in the banking system; extend 62 per cent of bank credit; service 66 per cent of bank accounts; and manage Shk54bn, 65 per cent of the assets of Israeli mutual and provident funds.

Furthermore the two banks have controlling stakes in many of Israel's biggest companies, including two of the country's big four holding companies, Koor Industries and Clal Israel. The non-financial holdings of the banks include

insurance, electronics, building and construction, telecommunications, tourism, chemicals and textiles. Bank Hapoalim alone is involved in the activities of at least 770 Israeli companies with an equity portfolio equivalent to about \$300m.

Last year parliament passed banking regulations - the so-called 25-25 rule - limiting bank holdings of no more than 25 per cent of the equity of any non-financial company and their total non-financial holdings to no more than 25 per cent of the capital of the bank. The banks were given to the end of 1996 to implement the regulations.

However, many government officials felt the regulations did not go far enough and were not taken seriously by the banks. A new committee was formed earlier this year to make fur-

ther recommendations.

On Sunday the committee recommended:

● Banks' non-financial holding should be reduced to a maximum of 20 per cent of the equity in any single company by the end of 1998.

● Banks should be limited to the number of directors they can appoint in a non-financial company and should not be allowed to nominate a chairman or managing director.

● The total value of non-financial holdings should not exceed 15 per cent of the banks' equity by the year 2001 (Bank Hapoalim's non-financial assets today equal 25 per cent of its capital, Bank Leumi is at 14 per cent).

● The banks should not be allowed to sell any of their holdings to any of Israel's four major holding companies;

● The proceeds of the sale of the assets will be distributed as a dividend;

● The banks should not be allowed to hold an equity stake in more than one large diversified holding company, therefore Bank Hapoalim should sell its entire holding in either Koor Industries or Clal Israel by the end of 1998.

Mr Shimon Ravid, joint managing director of Bank Hapoalim, said he was shocked at the extent of the recommendations. He said the government had yet to prove that banks' large non-financial holdings had any detrimental effect on the Israeli economy. The trend in the global banking industry was towards larger banks, he said.

The forced sale of non-financial assets would harm the company's profitability, he said.

Bank Hapoalim's non-financial assets have contributed 40 per cent of profits recently.

He also said the distribution of dividends from sales would significantly reduce Hapoalim's current \$2.2bn equity and would lower its ability to make loans.

"The committee has advised us on what to sell, how to sell, whom not to sell to and what to do with the money. I would say this is a Bolshevik economy," he said. "The proposals not only contradict declarations that Israel is a liberal country, but in the future will prevent large conglomerates from competing in world markets."

One of the group of investors currently bidding for a 40 per cent controlling stake in Bank Hapoalim, which includes Goldman Sachs, Mr George

Sorcs and the Brumman family of Canada, said it would reconsider its participation in the tender at a meeting in London next week.

But the committee said the privatisation exercise offered the best opportunity for the government to break economic concentration before the banks and their considerable holdings pass into private hands, which may be more tempted to abuse the banks' market power or their control over investment assets.

A committee report said that bank non-financial holdings posed a risk to banks' safety and soundness, led to distortions in the banks' management of investment funds and led to distortions in the competitiveness of the economy.

The committee also rejected the argument that the combinations between banks and non-financial holdings were vital to bank profitability. It said the dangers of "bank-conglomerate combinations" were particularly acute in Israel, given the fact that the two big banks manage most of the money invested by the public in investment funds and play a big role in providing investment management services.

"Maintaining the existing combinations would be detrimental to the Israeli economy," the report said. "These combinations would likely create substantial distortions in both the financial and non-financial sectors."

"We therefore believe the steps we recommend would facilitate the growth and development of the Israeli economy," the report said.



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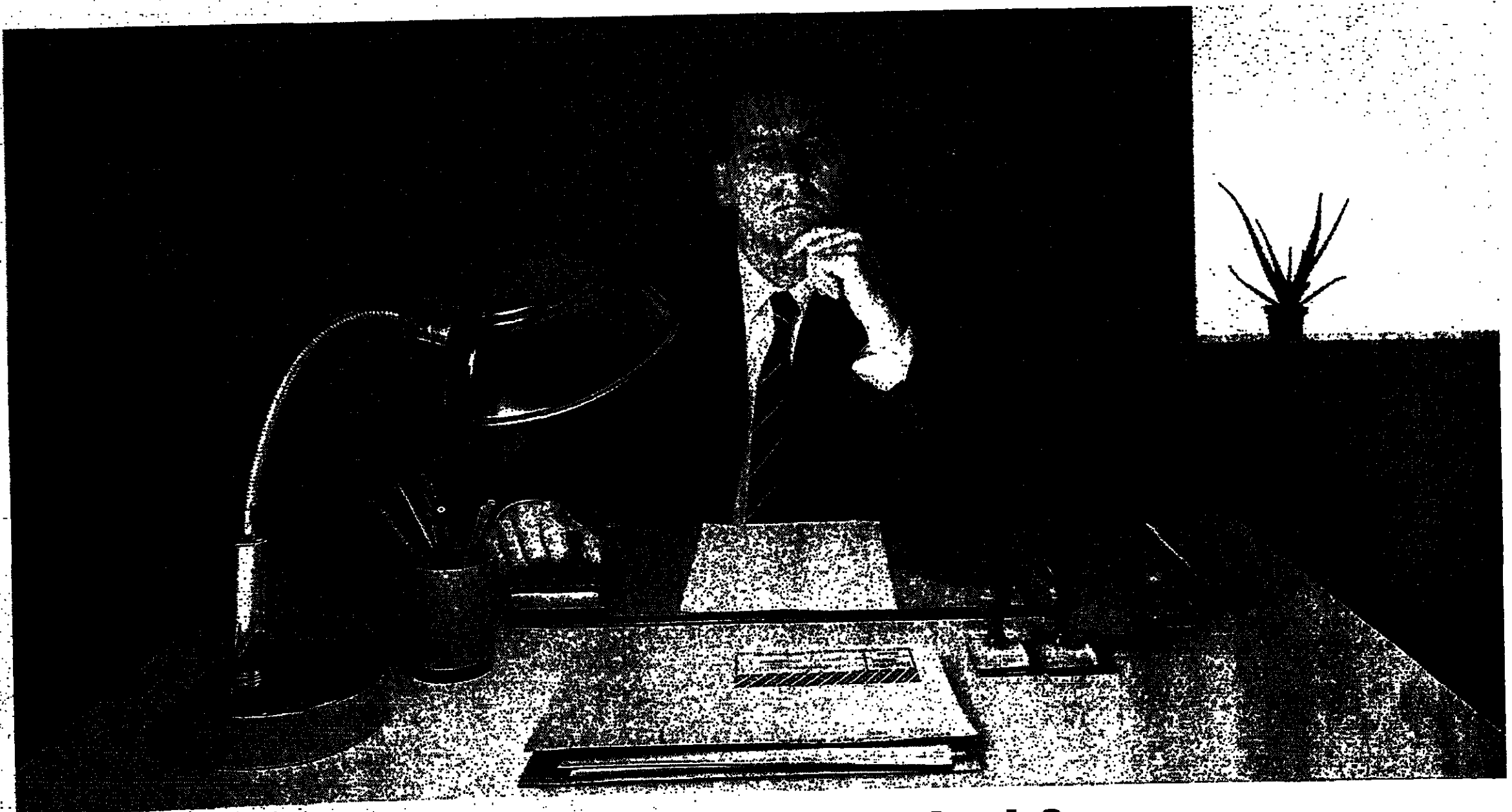
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NATIONAL ACCOUNTS

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NEWS: UK

British Rail arm set for sale to Racal

By Charles Batchelor
and Alan Cane

Racal Electronics, the UK data communications, security and electronics group, is expected shortly to announce that it is acquiring British Rail Telecommunications for up to £150m (£231m).

Racal said yesterday it was close to agreement with the British Railways Board for the acquisition of the company. BRT has been up for sale since April this year when Swiss Bank Corporation, the group's financial advisers began looking worldwide for buyers.

BRT comprises a networking division with some 230 staff and a telecoms engineering division with about 2,400 staff.

It is reckoned to own the largest non-military infrastructure in the UK outside the established telecoms operators. Cable television companies, which have been investing heavily in their own infrastructure are among the disappointed bidders, it is understood.

The Racal statement came on the same day that BR announced the sale of one of its two signalling equipment suppliers, Signalling Control UK, to BTR, the industrial conglomerate, for £38.5m and reflected the increasing impetus of BR privatisation.

The managers of Signalling Control revealed last February that they had decided against attempting a buy-out because of the uncertainties of the markets in which they were operating.

Companies often have an advantage when the business being sold requires a considerable capital investment or where it can be combined with existing operations to create benefits of scale which would not be available to a management team.

But in other areas of the railway business management/employee buy-outs have done well. Mebos appear set to sweep the board in the competition for control of the first

three passenger train operating franchises which will not require much capital. Rolling stock is leased while track is "rented" from Railtrack.

Management teams are also the preferred bidders for both South West Trains and London, Tilbury and Southend, the two other franchises which are expected to be sold off before Christmas.

Buy-outs are normally financed by a mixture of funds from development capital companies and banks and, sometimes, from corporate backers.

Two of the rail teams have brought in corporate backers to give additional weight to their bids: managers from South West Trains have teamed up with the French utility Compagnie Générale des Eaux while Great Western have linked with FirstBus, a bus company, and 3i, the largest UK development capital group.

Management teams have also been successful in bidding for British Rail's catering division, OBS Services; QSS, a quality and safety consultancy; Red Star, its parcels operation; and one of the six heavy maintenance depots recently sold.

But because they are expected to require considerable investment the other five maintenance depots went to corporate bidders. ABB, the Swiss-Swedish engineering group, won three of the depots while a consortium of Babcock International and Siemens acquired two.

Foreign corporate bidders used to operating in commercial rail markets can sometimes bring their skills to bear. Wisconsin Central Transportation, a US railroad involved mainly in freight shipments, emerged this week as the preferred bidder for Rail Express Systems, which operates the royal train and Royal Mail train services.

The passenger train operating franchises are only one section of the rail industry which is up for sale but they are the most high-profile part.

Inward investment 'The further south you go, the less well geared-up people are' Affluent region is loser in fight for jobs

By Michael Cassell,
Business Correspondent



The placency in the south-east of England is a long time in the making. Mr David Taylor, chief executive of English Partnerships, the economic regeneration agency for England, Mr Taylor's organisation is a central component in the national effort, much trumpeted by the government, to attract overseas investors to set up in the UK. With more than 850 new projects announced in the past two years - five Japanese investments alone accounting for more than £3bn (\$4.62bn) - that effort is paying off.

But Mr Taylor is worried that the wave of inward investment bringing new jobs and restoring confidence to some of Britain's most economically depressed areas is in danger of becoming geographically unbalanced.

A string of announcements on multimillion pound investments by overseas investors - including Siemens, Fujitsu and Samsung - has helped push parts of the north-east high up the popularity league for UK business locations. Such has been the region's success that expressions of concern over shortages of skilled engineers have reached ministers' desks.

The north-east is not the sole beneficiary of the inward investment bonanza. The north-west has notched up the largest regional total of inward

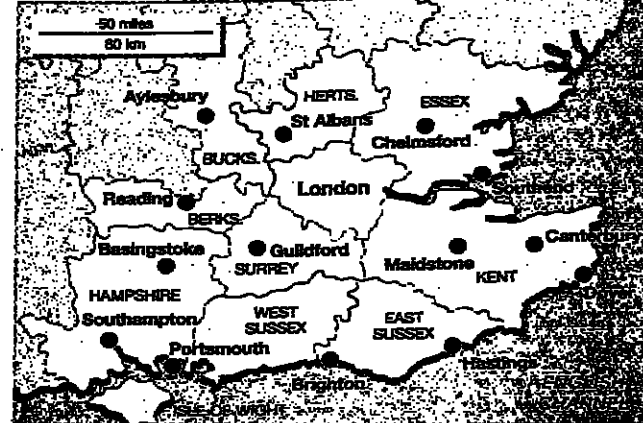
capital projects, if not the biggest individual projects. Scotland, south Wales and, increasingly, Northern Ireland have also scored well publicised victories in the fight to win a share of the spoils.

The south-east, however, which in the 1980s made much of the running in attracting foreign investment, has appeared increasingly in danger of being left behind as competition for new projects in the UK and across Europe becomes more intense.

"It is an interesting conundrum. The further south you go, the less well geared-up people are to deal with the challenge," claims Mr Taylor. In the north, local authorities and government act effectively together; there is a well connected, well oiled machine fuelled by more than a bit of local pride and passion. But in London and the south-east, people still don't have much of a clue.

Others are less critical. Mr Tim Eggar, industry minister, says the south-east has historically done well in attracting foreign investment, though he concedes it has not yet achieved the same degree of co-operation and partnership evident in some regions. He believes the catching-up process is under way, but adds: "It takes a long time to get good at it."

The government decision in 1993 to make parts of London and pockets of south-east deprivation eligible for development area grants is helping the drive for inward investment, says Mr Jon Barrett,



The south-east, the most densely populated and richest part of England, appears to have lagged in its share of new projects

head of inward investment at Kent Enterprise, the county's economic regeneration unit.

"Hundreds of millions of pounds from the government and the EU are now going into infrastructure in the region. It signals the start of a change in fortunes and we are just beginning to make things happen."

According to Mrs Jane Calvert-Lee, London regional director of the Confederation of British Industry: "The government never proposed London as an option to incoming manufacturers. Suitable land was simply not available and companies were only ever offered greenfield sites elsewhere."

But priority is now being given to attracting manufacturing industry to the capital. In July, the London First Centre - a private and public sector partnership formed to promote the capital in response to

concerns that its international pre-eminence was under threat - launched a worldwide campaign to attract business.

The organisation seeks to promote London's attractions over other international business centres. But it will also compete with the regions for investment, with the new emphasis on encouraging manufacturers, as well as financial institutions, to choose the capital. Newly promoted locations such as Park Royal in west London and Lee Valley in the east will offer the type of manufacturing sites previously hard to find in London.

Mr Andrew Fraser, chief executive of the Inward Investment Bureau, part of the Department of Trade and Industry, acknowledges the south-east has lacked the sort of cohesion which allows other regions "to punch above their

weight" in the competition to attract overseas companies.

He accepts parts of the north have established "a strong regional identity and momentum" to help sell the region to overseas companies; but he believes the national distribution of inward investment to date has - partly by luck and partly by judgment - been quite evenly spread.

Many investment decisions in the south, he emphasises, have not been on a scale to attract headlines and have often involved US companies less inclined to involve government agencies in their decision-making. Even so, the bureau is now considering strengthening its resources in the east and south-east of the country.

But the biggest challenge facing organisations such as the Inward Investment Bureau and English Partnerships is to ensure that regional rivalries do not undermine the national effort to secure foreign investment. When Mercedes-Benz indicated in 1990 it might consider locating a new car plant in the UK, it was inundated with 120 UK bids - before opting for an existing Mercedes-Benz site.

Such counterproductive duplication of effort: need to be eliminated and replaced by partnerships of national and local interests capable of winning the prizes. But the reality is that few people in the inward investment business can imagine the day when the movers and shakers on Teesside enthusiastically point the next big Japanese investor in the direction of the south-east.

Central bank warns of fraudulent certificates

By George Graham,
Banking Correspondent

The Bank of England warned investors yesterday to beware of billions of dollars of fake certificates of deposit bearing its name.

The Bank said that it never issued certificates of deposit in its own name, although it sometimes processed them for customers. Any certificates that claimed to be backed by the Bank were fraudulent.

"Extreme caution should be exercised in dealing with any party seeking to transact business on the strength of them," the Bank said.

Certificates of deposit issued by the Bank of England are widely circulated and traded. The fake certificates are typically used as collateral to persuade gullible investors to part with their money.

City of London police earlier this year seized 40 allegedly counterfeit Bank of England certificates of deposit with a face value of £500m, and charged two men with conspiracy to defraud the clearing banks. The wave of fakes now concerning the Bank aims much higher values are commonly over £1m. The named depositors are invariably well-known international politicians, presidents or royalty.

The fakes are denominated in US dollars and labelled "Obligation of Certificate". They include a string of bogus identification numbers purportedly issued by bodies such as the International Monetary Fund and the Bank for International Settlements.

They are usually accompanied by supporting documents of an "official looking nature", the Bank said.

All members of the Swift system, the international network through which banks transmit payment instructions to one another, have been alerted to the fake securities. The warning is being passed to other financial institutions through the British Bankers Association. The Bank warned that it had come across other fraudulent papers with a similar format issued in the names of other banks.

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Minister scorns alarm on 'mad cow disease'

By Clive Cookson,
Science Editor

Mr Stephen Dorrell, chief health minister, insists that there is "no conceivable risk" from eating beef of developing Creutzfeldt-Jakob disease, the human equivalent of bovine spongiform encephalopathy (BSE) or "mad cow disease". But mainstream medical opinion is not quite so sanguine.

Over the past month, the columns of the *British Medical Journal* and the *Lancet* have been filled with expert analysis of the possible link between BSE and Creutzfeldt-Jakob.

The common view is that prions - the bizarre particles of infectious protein believed to cause both diseases - could in principle pass from cattle to humans. There is no evidence

that this has actually occurred but the possibility should be taken seriously.

The general public was at greatest risk of consuming infected meat products between 1986, when BSE emerged, and 1989, when the government banned human consumption of beef offal and tissues most likely to contain prions. The muscles - eaten as steak, minced and stewing beef - are extremely unlikely to be infected.

The annual report of the government's Creutzfeldt-Jakob surveillance unit, published in October, showed a rise from 42 cases in 1993 to 55 last year - slightly above the previous peak of 61 in 1992. The unit attributes the apparent incidence in Creutzfeldt-Jakob to improved monitoring and diagnosis;

there is a similar trend in other European countries which are free of BSE.

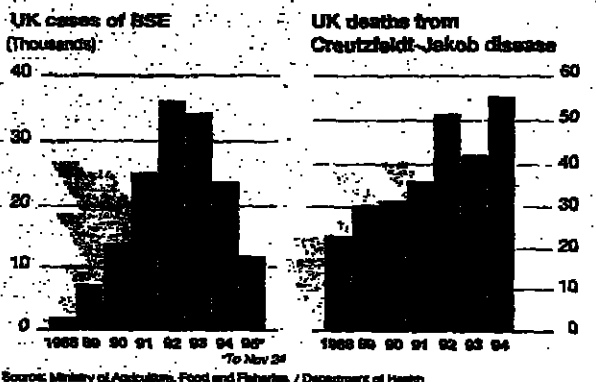
But there is a worrying exception to this generally reassuring statistical picture: four dairy or beef farmers and two teenagers have recently died of Creutzfeldt-Jakob disease in the UK.

Creutzfeldt-Jakob is normally a disease of middle and old age, so it is surprising that two teenagers should have been affected.

The disease is so rare that statisticians would expect to see at most one case every six years among UK farmers working with cattle.

The probability of four such cases occurring by chance is less than one in 10,000, according to Dr Sheila Gore of the MRC Biostatistics Unit in Cambridge.

Taste of controversy



Consumers appear unmoved by scare stories

Many consumers appear to have shrugged off the latest negative publicity over beef and the cattle brain disease bovine spongiform encephalopathy (BSE), *Alison Maitland writes*.

Sales of beef dropped by 5 per cent in the four weeks to mid November compared with the same period a year before, the Meat and Livestock Commission said yesterday. Products containing beef, such as burgers and pies, were expected to show a similar fall.

The commission said the fall in sales was not as bad as it had feared.

The period coincided with news of a fourth cattle farmer suffering from Creutzfeldt-Jakob disease and a much-publicised television documentary on the subject. The programme highlighted scientists' concerns about the number of cattle with undiagnosed BSE entering the food chain.

At the height of the consumer scare over BSE in 1990, beef sales in some areas fell by

20 per cent. But they recovered fairly rapidly to the level reached before the scare. Last year beef sales actually rose by 1 per cent.

Eradicating the disease is proving a long process. There are still between 300 and 350 confirmed new cases of BSE each week, although that is well down on 700 to 750 cases this time last year. At the peak of the disease in 1993, there were about 1,000 new cases a week. So far, 155,422 cattle have been affected.

But retailers say the weather has far more impact on sales than BSE, partly because consumers are inured to flare-ups in the BSE story. People tend to eat more beef when the weather turns cold, and in the run-up to Christmas. Both factors are likely to blur the BSE effect in sales statistics this month.

Supermarkets point out that there has been a long-term decline in beef consumption in favour of cheaper meats such as poultry, which are also seen

as less fatty. Per capita beef consumption has fallen to 15.9 kg last year from 22.4 kg two decades ago.

Beef exports have shown a totally different trend. They are expected to be up 20 per cent this year to about 377,000 tonnes, after a similar rise last year, the MLC says. The important European Union market has been unaffected by BSE, except for Germany, where British sales have dropped from 9,000 tonnes in 1989 to just 200 tonnes last year.

Fujitsu's UK offshoot to open N American plant

By Peter Marsh in London

The manufacturing unit of ICL, the UK-based computer company owned by Fujitsu of Japan, intends to open a north American factory in the next 18 months. The move will be part of its plan to triple its annual sales by the year 2000.

The manufacturing division, called Design to Distribution (D2D) and operated as a separate business by ICL, is likely to have sales this year of \$600m compared with \$450m

last year. About half of the revenues come from building computers and related electronic hardware for other parts of ICL. The rest comes from making products under contract to information technology businesses including Sun Microsystems, Hewlett Packard, Madge Networks, Dell and Axonn, a UK offshoot of Olivetti.

D2D also makes retail terminals for Camelot, the consortium which runs Britain's National Lottery, and satellite

dishes for Pace Micro Technology, a fast growing UK electronics business. Mr Alastair Kelly, managing director of D2D, said that, for the company's rapid growth to continue, it was important to have production bases outside Britain.

The American base would probably be a joint venture or a deal based on taking over an existing factory, to save on capital costs. The company has talked to a number of potential partners in such a venture but is not divulging details. D2D

expects to have annual sales of \$2bn by the year 2000. Of the growth in sales roughly half will come from building up its operations in Europe, and the rest will come from having production bases in north America and the Far East - where the company also envisages having a factory by the end of the century.

D2D wants to establish more of a foothold in making hardware for big telecommunications equipment suppliers such as Motorola, Nokia and Eric-

son. D2D says manufacturing operations for electronics are becoming increasingly specialised partly because of the flexibility required to run production lines for goods that need to be updated quickly.

Other groups in the contract electronics manufacturing business include SCI and Solatron of the US. Such companies believe IT businesses can find it cheaper and more efficient to concentrate on product design and sales and leave most of the production to outside groups.

UK NEWS DIGEST

Labour party aims to soothe cable groups

Mr Tony Blair, leader of the opposition Labour party, tried to assure cable company executives that he would not jeopardise their financial viability following his announcement that a Labour government would allow British Telecommunications to compete in the market for cable entertainment services. He said at a private meeting with the largest cable operators that BT would be allowed access to the market after 1998 only if it presented a detailed programme for the construction of a nationwide "broad-band" cable network, the so-called information superhighway.

Mr Alan Bates, chief executive of Bell Cablemedia, the third largest cable operator in Britain, said there was a welcome realisation from Labour that the cable industry was an important player. Mr Bates expressed disquiet during the Labour party conference in October when Mr Blair announced his agreement with BT for regulatory freedom in return for building a national information superhighway.

Raymond Snoddy and Robert Pecton

Exports from Scotland rose 23% last year

Exports from Scotland grew by 22.8 per cent at constant prices last year to reach a record £14.3bn (£22bn). Exports of office machinery and computers grew 30 per cent to £4.5bn, and exports of other electronic equipment rose from £1.19bn to £2.12bn. The electronics industry dwarfed whisky, for which sales outside Britain rose by £100m to £2.18bn. There was also strong growth in chemicals and paper, a recovery in rubber and plastics but only modest growth in mechanical engineering and textiles. France remains Scotland's biggest single export market, taking £2.34bn worth of goods, says the survey by the Scottish Council Development and Industry.

James Buxton, Edinburgh

Hardline Names urge 'managed run-off'

Controversial proposals intended to protect the interests of Lloyd's of London Names by stopping the insurance market underwriting new business were floated yesterday by a group representing some of those worst hit by the market's losses. Putting Lloyd's into "managed run off" - servicing only existing policies - would increase pressure on policyholders to accept less than the full value of claims, the hardline Lloyd's Names Associations' Working Party suggested. Lloyd's said the proposals were "misleading" and that "rational debate is not assisted by

arguments that fly in the face of evidence". It said that if Names defaulted on obligations, the British government would intervene, setting policyholders' rights as its first priority. *Ralph Atkins, Insurance Correspondent*

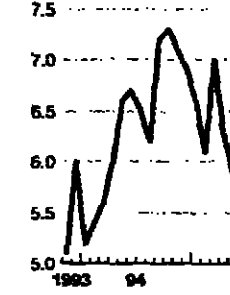
Profit at stock exchange declines sharply

The cost of rationalising its settlement systems ahead of the introduction of the new paperless Crest system left the London Stock Exchange's profits sharply lower in the first half of its year. Total income fell only slightly in the six months to September 30 to £34.3m (£45.2m) compared with £37.8m a year earlier. But the exchange's pre-tax surplus dropped by more than half to £10.3m (£21.7m) after it swallowed costs of £18.5m that will help pay for continuing rationalisation of its settlement systems. The exchange has already completed what it calls the "biggest transformation in share settlement in the UK in modern times". That occurred when it introduced five-day rolling settlement in June followed by dematerialised stock lending services in September. *Patrick Harverson, Financial Staff*

Rate of money supply increase accelerates

Money supply M0

Annual % change



Hopes that consumer spending might be picking up were boosted after money supply data pointed to a stronger-than-expected expansion. M0, the narrowest measure of money supply, grew by a seasonally adjusted 0.7 per cent between October and November, and by 5.6 per cent in the year to November. This rate was faster than in the previous two months. Much of the increase was caused by a surge in the level of banks' operational deposits. Although these form part of the data, they are highly volatile and thus are usually discounted by economists. However, the growth also reflected a continued steady expansion in the level of notes and coins, which account for the rest of M0. These grew 0.5 per cent between October and November, and 5.7 per cent in the year to November. *Gillian Tett, Economics Correspondent*

Swindlers jailed: Two men were jailed in London for an "ingenious" swindle in which more than 1,000 customers of cashpoint machines belonging to Abbey National Bank were robbed of thousands of pounds. The customers were secretly filmed as they keyed in personal identification numbers, and knowledge of the numbers enabled the men to withdraw money from the victims' accounts with bogus cards. The victims knew nothing until their account statements arrived.

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For further information please write to Graham Wollott at Coopers & Lybrand, Chomwood Court, New Walk, Leicester LE1 6TE. Telephone 0116 285 3000. Fax 0116 285 3289.

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LEGAL
NOTICES

MAXWELL FINANCE, JERSEY LIMITED

(In Administrative Receivership)

NOTICE IS HEREBY GIVEN that a meeting of

the creditors of MAXWELL FINANCE, JERSEY LIMITED (the "Company") will be held at No. 1

Riding House Street, London W1A 3AS on 28

December 1995 at 10.00 am (or as soon thereafter

as an Extraordinary General Meeting of MFP)

convened for the same date shall have concluded or

been adjourned for the purpose of considering

and if thought fit approving the following

resolution:

"THAT Mr Peter James Veldin, as Liquidator of

MFP, may, for the purpose of compensating all

and may claim made by the holders of the Bonds

(the "Bonds") in respect of the MFP, enter into an

agreement (the "Settlement Agreement") a draft

of which is appended hereto and marked "A",

between Maxwell Finance Corporation PLC ("MFC") (in Administrative Receivership), Maxwell

Communications International Ltd ("MCIF") (in

Liquidation) and the Bondholders."

Any creditor of MFP who has not yet submitted the

meeting previously may be entitled to vote by

proxy. The proxy form for voting by proxy and the

proxy form are attached.

Subject to the approval of the aforementioned

resolution the Liquidator of MFP anticipates that

the pre-conditions in the Settlement Agreement

will be satisfied on or before 31 December 1995

(or as soon as practicable thereafter) so that the

first distribution of the proceeds of MFP may be

paid on 1 February 1996. Payment of distributions

will only be made against Distributions Comps.

Bondholders should deliver the Bonds and present

all Coupons appertaining thereto for stamping

requests to their respective deposit banks or any

branch of Swiss Banking Corporation ("SBC") in

order to receive the first distribution. Any possible

further distributions will be made only against

delivery of stamped Coupons.

Failure to present the relevant Bonds or Coupons

for payment within one year of 1 February 1996

may result in the loss of the right to receive the

first distribution of MFP. The first distribution is made by

the Liquidator of MFP, will result in those Bonds or

Coupons incoming, with the result that the

holder of those Bonds or Coupons will thereafter

respect them.

For James Veldin
(Liquidator of MFP)
Smith & Williamson
No 1 Riding House Street
London W1A 3AS

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TECHNOLOGY

Viewed through the eyes of the layman, Titian's painting of Venus and Adonis at the National Gallery of Art in Washington DC can sometimes appear to be a dull, if worthy, work of art. The foliage is a dull brown, the sky a turgid mud colour and there is little exciting in the interplay between the characters.

Yet with the help of scientific analysis, a connoisseur views the masterpiece in a completely different light. "I see the luminous green of the foliage, the drama of the bright blue sky and Adonis straining to go off to the hunt," says David Bull, chairman of paintings conservation at the gallery.

Bull's vision has been made possible by the use of scientific methods that help explain the original intentions of the artist. The sky, for instance, was originally painted with small, a cheap pigment widely used in the 16th century, and would once have been brilliant blue. Over time, the pigment deteriorated into its present dull state.

"This painting was so much more exciting when it was first completed," says Bull. "We can't change it back to the way it was, but at least we can learn to appreciate it more."

The improving use of technological methods to understand artists and their works has attracted heightened attention in the US recently through two large exhibitions. One is Rembrandt/Not Rembrandt at the Metropolitan Museum in New York until January. The other is the National Gallery's Vermeer show, which questions many long-held assumptions about the old master's paintings.

The awakening to the importance of technology in analysing old works of art is not limited to the halls of museums. Private collectors are also starting to pay more attention to art science.

"When people are investing a lot of money in something, they want to have some guarantee of its worth," says Max Bernheimer, head of antiquities for Christie's auction house in New York. "Science can't tell them everything, but it can help to single out some of the more obvious forgeries. As the methods become cheaper and investors become more aware of what's available, they will use these technologies more."

Many investors see the small price they often pay for scientific analysis as well worthwhile. Dating is one of the most common methods used by collectors. For instance, X-rays used in conjunction with dendrochronology, which counts rings in wood, can often yield a fairly accurate date for an old wood panel work.

"If a painting is out of century, that has serious implications for its value," says Peter Sutton, senior



The artist's work viewed in a new light: a detail from Titian's 'Venus and Adonis' at the National Gallery of Art in Washington

Art of analysis

Scientific methods are being used to shed new light on old masterpieces, writes Victoria Griffith

director of old masters at Christie's. "Not least is the probability that it was not painted by the artist originally claimed."

Pigment analysis is the key to dating, attributing and understanding important works of art. Technological surveys of vast numbers of paintings, for instance, have yielded extensive information.

"We know that certain pigments were not used after certain dates," says Hubert von Sonnenberg, curator at the Metropolitan Museum of Art in New York. "That can help us place a work in a certain time period."

One test frequently ordered by buyers today is thermal luminescence, used to date ancient ceramics. When fired, ceramics and metals begin to absorb radiation. Thermal luminescence measures this radiation to come up with an approximate origination date. The process is relatively inexpensive - just \$275 (£175) for a single piece of ceramic.

"A lot of dealers and investors do this pre-emptively, so if there's a question they can whip out the report and have something to show," says Victor Bortolot, head of Bortolot Daybreak Corporation, a specialist in dating ceramics.

The first X-ray analysis of a painting was accomplished in 1925. Yet technological advances have made these procedures more valuable for art dissection than they once were.

The increasing use of computers in art analysis, for instance, has proved a true boon. Most analyses are based on comparisons. Connoisseurs and scientists compare spatial relationships, pigment analysis and other information to a wide database to obtain information about the work of art.

"Computers do comparative analyses well," says Arthur Beal, director of scientific research at the Museum of Fine Arts in Boston. "They can measure information against enormous amounts of data in very little time. It's like fingerprinting - you can do the analysis manually but a computer certainly makes it easier."

Gathering methods are also improving. X-rays are being improved by filling in gaps temporarily with materials that absorb radiation at the same rate as wood: acrylic resin, metal foil or sugar, for instance. And art historians are making increasing use of a new method, audio-radiography, through which a painting is made slightly radioactive and photographed over a number of months.

Science is often myth-destroying, and its use in the art world is no exception. "Girl With a Pearl Earring" by Vermeer, for instance, is now believed to be a girl with a glass bauble. The assessment was made recently when it was discovered that a fragment of white paint had migrated from elsewhere in the painting to land somewhere under the young woman's ear.

Whole collections of ancient ceramics have been proved to be forgeries, and the number of known Rembrandts in the world has been sliced in half through the use of scientific methods.

The art world is full of sceptics about the worth of scientific research. "There is no machine that will tell you for certain whether Rembrandt painted a work of art or not," says Scott Schaefer, senior vice-president of old masters at Sotheby's auction house in New York.

Yet with so much at stake, it seems that scientific art analysis is here to stay. "It is not magic box, but [technological methods] can tell you some important information," says Sutton. "At the very least they can rule out obvious forgeries. At best they can help people understand paintings in a way they haven't before."

Anne Wilkinson on a firmer framework for vital international co-operation in science and technology

Plan for sharing the benefits of research

At the EU-US summit meeting in Madrid on Sunday, closer scientific and technological co-operation was identified as a priority. Science is under increasing pressure to solve global problems, especially in the fields of environment, health and communications, so this would be a popular move. But wide-ranging co-operation will depend on agreement about who owns the results, an issue on which the European Union and the US have not always seen eye to eye.

International co-operation in science and technology must be based on mutual interest and a balance of benefits. Negotiators normally look for a balanced package containing access for each party to the other's research capability and an equitable sharing of the results and market opportunities.

Economic constraints have focused the arithmetic of funding ever more directly on returns to national coffers in the form of new or increased market opportunities and revenues from product licences. Achieving a balance of benefits from intellectual property rights (IPR) is the key to a co-operation agreement.

EU guidelines on negotiating these agreements, drawn up in 1982, have been the basis for all the Commission's international negotiations in this field. They have also subtly influenced attitudes to international co-operation in Europe, in that they have focused on the commercial aspects of co-operation. These must be balanced to create an environment in which mutual benefit in IPR can be achieved.

Above all a political instrument, a uniform negotiating position on IPR has to be flexible enough to address current and particular preoccupations as well as confirming the general approach of the external relations policy to which it contributes. It is pursued in a two-step process: first, the overall framework is agreed party to party, and then the details of ownership, licensing and exploitation are refined in technology management plans by the participants in each scientific project.

The general framework is concerned with striking a balance

between protecting the interests of researchers and ensuring that results are exploited in a way that benefits the public. Participants from the EU in research that is partly EU-funded sign a contract that gives them the rights to the results. But they are bound as to their use by European laws. One aim of all international negotiation in this field is to ensure that third country participants in EU research accept the same constraints as European partners.

The principles are usually common ground. However, the details

Differences between the EU and US on intellectual property rights have undoubtedly inhibited scientific co-operation in recent years. But they have shown that they can also reach creative solutions

can be difficult to refine, not least because in the EU model, the IPR have to be agreed before funded work can commence. This is intended to avoid negotiation having to take place after IPR - and vested interests - have been created. But it means negotiators are working in the abstract, and can be distracted by principles not relevant to the negotiation.

Both the EU and the US are vulnerable to that risk: the US because of the trade context in which IPR is placed and which has led to differences with the EU in the past, and the EU, because its negotiators are particularly constrained by institutional aspects.

Mutually agreed IPR rules are, of course, not a precondition for international co-operation in R&D: co-operation may and does take place on a project-by-project basis. The EU's Fourth Framework Programme allows third country researchers to participate (without funding) in 11 of the 20 specific

programmes. But such participation is normally governed by the host institution's own terms, and varies as to the access that visiting researchers have to results.

Researchers and companies are often not in a strong position to negotiate better terms; this can lead to perceptions either of exploitation or of a "brain drain". That has been one of the most significant influences both on the US position on IPR, and on the way the multilateral programme in Intelligent Manufacturing Systems has developed. Originally conceived as a Japanese invitation for international participation in its domestic research programmes, IMS developed into a potential international co-operation following a three years of talks on IPR rules. European industry, whose position was based on the EU's IPR guidelines, played an important role in defining the rules.

On the problems that can be caused by fixed negotiating positions, these are points on which both sides tend to dig themselves in, and which would normally be soluble only as part of a broader political debate. That carries the risk of embroiling a generally non-contentious issue, such as science and technology co-operation, in wider disputes. Differences between the EU and US on IPR have undoubtedly inhibited scientific co-operation in recent years. But they have shown that they can also reach creative solutions. Examples are the negotiations with the US to renew the Euratom Framework Agreement, which took place earlier this year, and the agreement for joint research in nuclear safeguards in 1994.

There is a real prospect that within the foreseeable future the EU and US could have a common position in this area. That would open the door to significant, if unquantifiable, possibilities for developing science and technology internationally, as more and more areas of joint interest are characterised by global challenges and opportunities.

The author is a negotiator in the external relations directorate-general of the EC. The views expressed are her own.

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INTERNATIONAL PEOPLE

Worldwide role for Lock at IBM



Greg Lock (left), who joined IBM 25 years ago as a system engineer in the UK, has been appointed IBM's worldwide general manager for manufacturing industries. In his new role, Lock, 48, will be responsible for IBM's worldwide business with customers in industries such as automotive, aerospace and electronics.

The creation of the post reflects the company's determination to respond to its customers in industries such as motor manufacturing, which operate on a global basis. Lock says his first priority will be to ensure that IBM can respond to the complex requests of global manufacturing customers on a consistent basis.

Lock's career at IBM has included spells in the US as an adviser to former chairman John Opel, and in Paris. Following the company's reorganisation last year, Lock was made general manager for manufacturing industries in Europe - responsible for "a significant part" of the group's

European revenues.

His latest appointment should help to damp down grumbles that senior jobs have been going to Americans and that Lou Gerstner, IBM's chairman, is putting in the management reins and re-centralising operations.

Paul Taylor

Austrian to head Ciba

Ciba, the Swiss chemicals giant, will be headed by an Austrian as of next April, when Hermann Vodicka, 53, succeeds Heidi Lippuner, 62, as executive committee chairman. Lippuner will, however, be elected to the board.

Vodicka is currently head of the group's polymer division, and has responsibility for the Ciba Vision and Mettler Toledo divisions. Born in 1942 in Vienna, where he obtained his doctorate in technical chemistry, he was 'acquired' by Ciba-Geigy in 1971 when the Basle-based group took over Deutsche Advance Produktion GmbH, which he had joined in 1968.

He subsequently held several marketing positions, and in 1986 he was appointed to the management committee of the group's Brazilian division in Sao Paulo.

In October 1988, he became head of the Mettler group, heading the subsidiary through the merger with the US

company Toledo. Vodicka has been a member of the group's executive committee since November 1993. *Thierry Meyer*

Kunz goes to IIT

Heidi Kunz, treasurer of General Motors, has been appointed chief financial officer of IIT Industries, the manufacturing arm of the US conglomerate which is being broken up into three parts.

Kunz, 41, who has worked at GM for 16 years, is the highest ranking female at the US car giant and also one of its youngest senior executives. IIT Industries, which is composed of IIT Automotive, IIT Defense & Electronics and IIT Fluid Technology, has annual sales of over \$8bn and made operating profits of \$122m in its latest quarter.

Kunz, who was named a GM vice president in March 1994, described her move as "an opportunity to come in on the ground floor". In September, shareholders of IIT, one of America's best-known conglomerates, voted to split the company into three separate, publicly-traded entities, of which IIT Industries is one. The others are IIT Corporation (hotels and gaming) and IIT Hartford (insurance). She will start her new job next week.

EU Commission moves

The French edifice in Brussels is shifting, with two of France's most senior *fonctionnaires* at the European Commission moving into influential positions.

Robert Verrue is leaving the department responsible for relations with eastern Europe to head up the telecommunications directorate, where he will oversee the transition to full EU telecommunications liberalisation in 1998. And François Lamoureux, the fiercely intellectual *chef de cabinet* to Edith Cresson, the research, education and training commissioner, is to become the number two at Verrue's old department.

The 48-year-old Verrue, described as a "charmer", is a graduate of both the College d'Europe at Bruges and France's international business school, Insead. He was an efficient director general under Dutch Commissioner Hans van den Broek, in charge of channelling EU funds to the former Soviet Union and eastern Europe, but was nevertheless eager to take over at telecoms.

Meanwhile, Lamoureux, a former member of Jacques Delors' entourage in Brussels, who had been lumbered under Cresson with white papers on education and training and a miserly

research budget, could not wait to get close to the big-spending projects of the east European programmes. *Emma Tucker*

Bechtel: the family way



Riley Bechtel, 43 (left), is to take over as chairman of the family-owned Bechtel Group, one of the most successful private companies in the world. Riley will be the fourth generation of the family to head the 97-year-old US construction giant which has annual revenues of \$7.9bn and has done everything from building the Alaskan pipeline to cleaning up Kuwait after the Gulf war.

The post of chairman has been vacant since Riley's father Stephen retired in 1990. Riley, who has been chief executive since 1990, will continue in that role. Meanwhile, Fred Glack, 60, a former chief executive of management consultants McKinsey & Co, has been appointed vice chairman and Adrian Zaccaria, 51, has been named president and chief operating officer. The appointments take effect at the end of the year.

LAW

Damages for state liability



In the second opinion this year on member states' liabilities for breaches of European law, an advocate-general Giuseppe Tesauro said member states should pay damages to individuals who suffer harm as a result, but only where the breach was manifest and serious.

The opinion was given in the Factortame litigation. In 1991 a British act of parliament to stop Spanish fishermen "quota-hopping" by registering their boats under the British flag was declared incompatible with European law by the European Court of Justice. The Spanish fishermen sought damages from the UK.

Given that it was unclear under European law whether damages could be awarded in such circumstances, the English court referred the issue to Luxembourg.

As the principle of state liability was known in domestic law in all the EU member states, the advocate-general said it should also apply where the unlawful conduct consisted of an infringement of a European provision.

Mr Tesauro said the court had already ruled in the 1991 Francovich case that member states could be liable in damages for failure to implement a directive. However, as advocate-general Philippe Léger had suggested in the Hedley Lomas case in the summer, state liability should not be confined to such situations.

He rejected arguments that the Francovich judgment should be restricted to its facts, on the basis that the right to compensation was only required when the European provision in question could not otherwise be relied on in the national courts.

As the principle of compensation was an inherent principle of EU law it should apply to any situation in which European law was infringed. Nor did it matter if the act or omission was attributable to the member state's legislature, rather than executive, arm.

Although in domestic law damages could not be awarded

in such circumstances, there was no reason for European law to be thus constrained in light of the fact that the member states obligations under the Treaty of Rome were directed to the creation of individuals' rights. Thus state liability arose in any case in which European law was infringed resulting in loss or damage.

The argument that domestic law should determine when such liability would arise was also rejected on the basis that it would not guarantee the full effective rights of individuals throughout the EU: it was thus for European law to determine the criteria for liability.

It was clear there had to be actual damage and a causal link between the damage and the unlawful breach of European law. Mr Tesauro said only where the breach was serious and manifest would the state be liable. However, that was not the same as the conditions required for EU institutions to be liable under European law for their unlawful acts. The decisive factor was the margin of discretion available to member states in relation to the particular European law breached.

States would in effect be strictly liable whenever they were obliged under European law to achieve a particular result, as a failure to achieve that result would be regarded as serious and manifest. Conversely, where there was a broad margin of discretion, states would only be liable where their conduct was virtually arbitrary.

As to when the obligation to pay damages arose, he suggested that when the provision breached conferred identifiable precise rights on individuals, the state's obligations to pay compensation would arise when the harmful event occurred. When the individual's rights were less clear, the state's obligation would only arise after the situation had been clarified by the national or the European Court.

C-48/93 *R v Secretary of State for Transport, ex parte Factortame, ECI Opinion*, November 28 1995.

BRICK COURT CHAMBERS, BRUSSELS

ON THE MOVE

Colin Barrow will leave the ED&F MAN GROUP, with effect from March 31. He has been the Swiss-based managing director of Man Investment Products since 1990. Stanley Fink, currently group finance director, takes over.

Jack Crowley, a US national, has been appointed managing director of BETTERWARE UK. He joined the group in September after 18 years with Colgate Palmolive.

Joseph Tsui has been appointed general manager for HARRIS CORPORATION's communications operations in the greater China region. Tsui, who will maintain offices in Hong Kong and Beijing, was chief executive of Tricom Holdings' Telecom Group.

Victoria Haynes, 38, Goodrich's chief technical officer, has joined the board of THE LUBRIZOL CORPORATION.

Ernest Mario, chief executive of ALZA CORPORATION, has joined California Governor Pete Wilson's Governor's Council on Biotechnology.

James Schlagheck, after 18 years at American Express Bank, has joined BANK JULIUS BAER And replaces

David Bodner as manager of its New York branch from January 1. Balz Eggmann re-joins the branch as senior vice president and co-head of private banking.

Marvin Miller, 58, has been appointed chief executive of BAXTER HEALTHCARE CORPORATION's Nextran unit. He was American Cyanamid's vice president of biotechnology licensing.

John Koehler has resigned as chief operating officer of California's TITAN CORPORATION to start his own consulting company. Koehler, who joined Titan in April, was previously president of Hughes Asia Pacific, the marketing arm of Hughes Electronics.

Carmel Peters, former chief investment officer at Rothschild Asset Management in the Asia Pacific region, joins WHEELOCK NATWEST in Hong Kong as managing director of Wheelock NatWest Investment Management.

Sir Robin Renwick, formerly UK ambassador to the US and South Africa, has become a director of Robert Fleming Holdings, Richemont Compagnie Financière and a Trustee of the Economist.

Peter Beynon has been appointed director of international operations at JARDINE INTERNATIONAL

MOTOR HOLDINGS: Samuel Eicher becomes finance director.

Klaus Diez, finance and accounting manager at HOECHST, succeeds Dieter Haas as management chairman at Hoechst Veterinär at the beginning of 1996. Haas retires at the end of March.

Karel Boone, chairman of Belgian biscuit-maker OBOONA LOTUS, has been appointed chairman of the Federation of Belgian Companies for the next three years. He replaces George Jacobs in April.

Briano Olivares has replaced Carlo Dinnella as general manager of YOUNG & RUBICAM ITALIA.

Daniel Richebraque has been appointed to run the mail order company VESTRO ITALIA, a subsidiary of the France's Pinault Printemps Redoute.

Willy Kissling is to step down as chairman of LANDIS UND GYR's pension fund and will be replaced by Helmut Straub, currently personnel director.

Thomas Carter resigns as senior vice president of the ALUMINIUM COMPANY OF AMERICA, with effect from January 1.

Trevor Jones has been elected to the newly created position of vice chairman of

ECHLIN, a US motor vehicle parts manufacturer.

John Slosar, general manager, airline planning at Cathay Pacific Airways, has been appointed managing director of HONG KONG AIRCRAFT ENGINEERING. He replaces Andrew Herdman who will return to Cathay Pacific as general manager of Cathay Pacific Catering Services.

Georg Hermann Sahler, LUFTHANSA's regional manager for Austria, Slovakia, Switzerland and Liechtenstein, is to be Lufthansa's manager at Frankfurt airport. He will be replaced by Sigrid Brunotte.

Perry Premdas replaces Klaus Schmieder as treasurer of Hoechst Celanese Corporation, the fifth largest chemical company in North America. Schmieder is returning to Hoechst in Germany.

Premdas is currently general manager of the company's Exco printing products division.

Paul Combs has joined STEPHENS, the Arkansas investment banking firm, as director of research. He was previously director of research at Minneapolis's Dain Bosworth.

James Berry is to be vice president of international operations at CALIFORNIA'S PERSISTENCE SOFTWARE.

Bob Cushing is to be European marketing director of 3COM CORPORATION following its recent merger with Chipcom Corporation.

William Pietersen, former president of Sterling Winthrop, has been appointed a non-executive director of ALBERT FISHER'S North American board.

Poul Erik Goldberg, union branch chairman of DANISCO DISTILLERS, has resigned from the board.

Australia's James Hogan, 39, succeeds Robin Davies as vice president, marketing and sales at HERTZ EUROPE. Davies becomes vice president, strategic planning.

Safia Sawat joins WORLDSPEACE CORPORATION as head of its Africa regional regulatory department.

Peter Holt has resigned as a director of ZAPATA CORP following a disagreement over the company's strategy to move out of energy services and enter the food industry.

John Klein has been appointed chief executive of UK-based MCDONNELL INFORMATION SYSTEMS GROUP. Klein, a former IBM executive, joined the board in June.

Siegfried Kaske and Wolf-Dietrich Loose are replacing Hero Brahms and

Joergen Maas on the group management board of KAUFHOF HOLDING with effect from January 1.

David Emmes, head of financial products for NATWEST MARKETS, has left the firm's Los Angeles office.

Charles Dempster has been named chairman and chief executive of UTILICORP UNITED US, Utilicorp United's unit marketing gas in the UK.

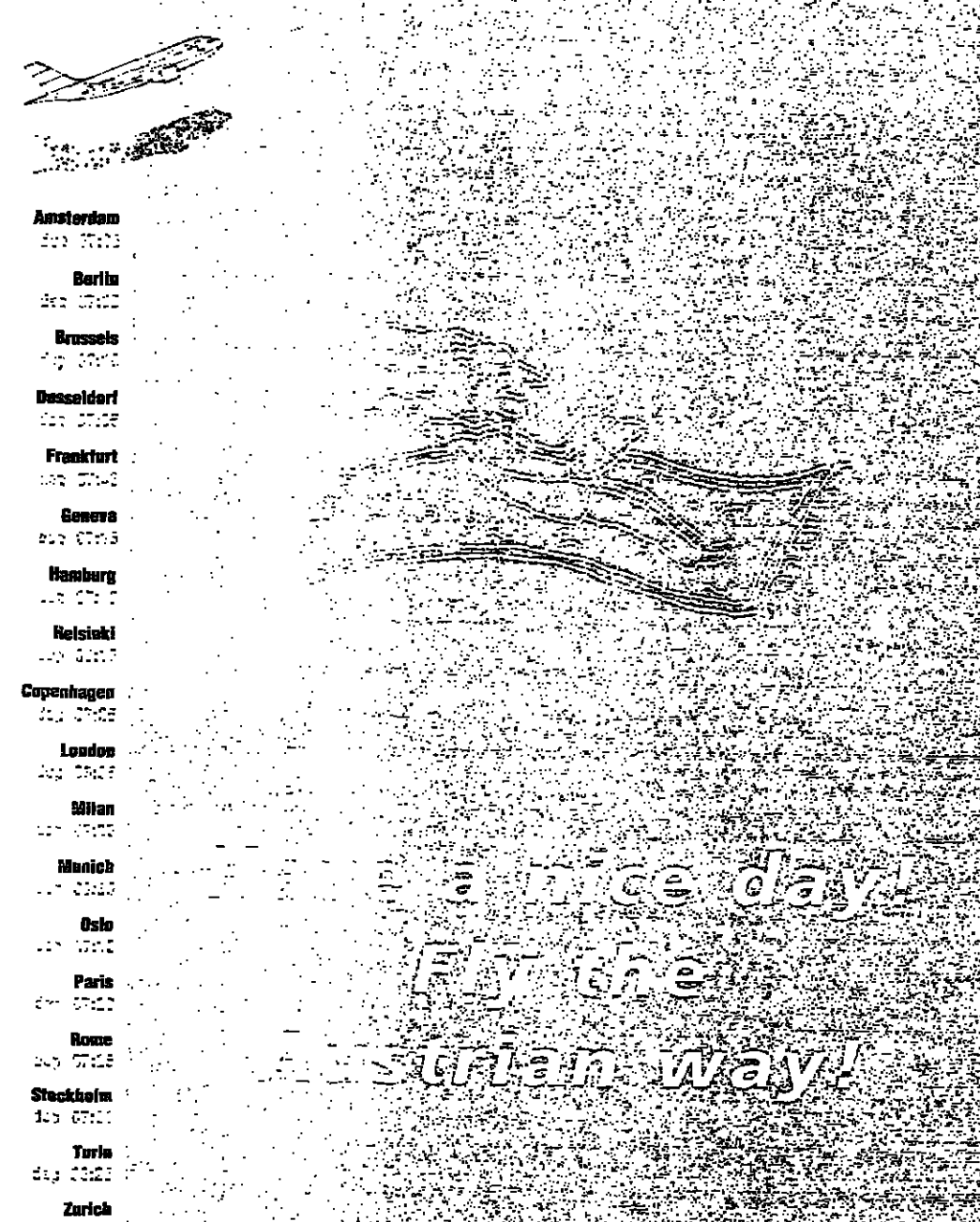
Dempster has been Utilicorp United's senior vice president, energy resources for the past year.

Fernando Xavier Ferreira, former communications ministry executive secretary, has been appointed president of the state-owned Brazilian telecommunications company TELEBRAS.

Barry Murphy has been made chief executive officer of Australia's FEDERAL AIRPORTS CORPORATION.

International appointments

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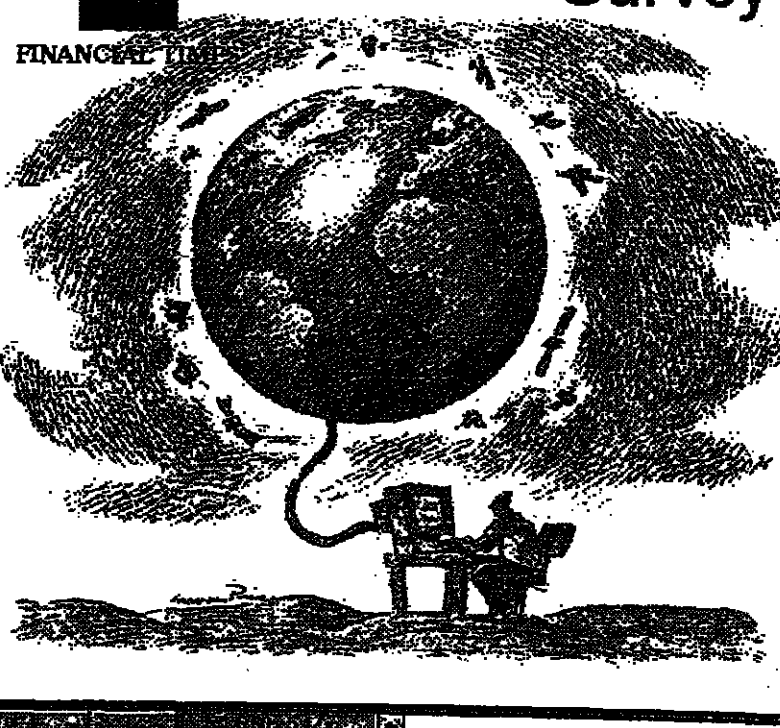
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The Dolly Sisters, all feathers and sequins, at the Casino de Paris: by James Abbe, 1922

Potent photography

William Packer admires the work of James Abbe

Once Noel Coward, it is wonderful how potent "cheap" photos are. True art, after all, lies not in the intention - or we would all be artists - but in the result. And it is not by chance that so much of what we now recognise as the very best of photography, from the first experiments to the latest techno-wizardry, has been the product of the workaday imperatives of magazine and newspaper reportage, or of fashion, theatre and cinema publicity.

James Abbe, who died in 1973 at the age of 90, was an American photographer whose varied career led him down all these avenues before he turned to broadcasting at the outbreak of the second world war. The rediscovery of his work as a photographer, which he just lived to see, coincided with the revival in the later 1960s of critical interest in early photography, and its reappraisal as a serious art-form.

Abbe had taken up photography as a boy and contributed to his local newspaper while still at school. In 1917 he moved from Virginia to New York, where, in working for such magazines as *Vanity Fair*, *Ladies Home Journal* and the *Saturday Evening Post*, he began to prosper on a wider stage. His magazine photography, particularly for *Vanity Fair*, led to portraiture and fashion and theatre work, which led in turn, inevitably, to Hollywood.

If we held in our collective mind's eye an image in black-and-white of the celebrity life of New York Stage and Hollywood Studio in the early 1920s, it would have been in large part the one that Abbe established by his camera. There they are, those pretty girls-next-door and glamorous elder sisters with their wavy frocks, curly hair and cupid lips, Mary Pickford and Marguerite Clark, Lillian Gish and the young Mae West. And there too are Mack Sennett's line of *Bathing Beauties*, with their floral garlands and, to our eyes, rather dumpy legs, caught in a chilly breeze off the Pacific.

Soon he was off again on to Paris and London, and now it was a more sophisticated but still innocent image that he presented. Here are Mistinguett flaunting her famous legs at the *Moulin Rouge*, Josephine Baker at the *Revue Nègre*, the incomparable Dolly Sisters, all feathers and sequins, at the *Casino de Paris*. Backstage in London, with what refinement Dorothy Dickson - black hair, black tights, black miniskirt - leans against the scenery. How innocently two chorus girls at the *Follies Bergère*, wearing little more than a bunch of flowers, come down the stairs.

These are all scene-setting publicity shots, background photo-features, promotional portraits, and all done to a commission. Some are faintly ludicrous, some merely conventional, but even within such limitations they are all done well, all human, engaged and interested. The image of two actors perched high on barrels for a riding scene, with the crew waiting impatiently for the sun to come out, is truly funny. We are reminded that while so many of us can never take a good picture however hard we try, there are those like Abbe who can hardly take a bad one.

The best of the portraits, lobbying portraits or studio stills that they are, stand with the best of their time. Lillian Gish in exquisite, persuasive profile for *Broken Blossoms*; a fraught Bebe Daniels caught in dramatic chiaroscuro; Norma Talmadge, in *The Eternal Flame*, languid in her huge wicker chair; Anna Pavlova so elegantly cross-legged in her shoe-filled dressing-room; Valentino and Natasha Rambova in

stark romantic silhouette; Tilly Losch; Theda Bara; Louise Brooks; Gloria Swanson; Sacha Guitry with Yvonne Printemps - the list is endless.

Abbe saw out his pictorial career with travel stories and photo-journalism. He went to Russia in 1927, where he photographed Stanislavsky at the Moscow Arts Theatre, and Eisenstein too. In 1929 he was in Mexico for the civil war, where

he met Diego Rivera. In 1932 it was Moscow and Stalin; in 1933 Germany, Hitler and a Nuremberg rally; 1936 and the Spanish civil war.

His eye remained as clear as ever, and his pictorial judgment as acute. But the mood had changed, and this later material appears in the context of this otherwise admirable exhibition as but a coda and afterthought, which is hardly to do it

justice. A fuller and more considered presentation of James Abbe in this his final aspect as a photographer is clearly needed.

The Love of the Lighthouse - photographs by James Abbe: National Portrait Gallery, St Martin's Place WC2, until March 24. Sponsored by Kodak, Professional & Printing Imaging, and the Anglo-American Friends of the NPG.

Imagine Schiller as rewritten by the Bitcher of *Danion's Death* and *Woyzeck*, or by the young Brecht.

The story is always fascinating, and at its centre Donald Sumpter develops his portrait of Don Juan with grim affability. Only a few other characters from *Silverface* return here, but David Fishley's eerie "Fuso Negro" - a sort of Shakespearean fool - still dances on the edges of the action, and late in the play Tonia Chauvet's Sabella makes a touching reappearance. Of the four wolfish brothers, impeccably feckless and vicious, the creepy, priestly one gets to deliver the final line, comically sour and practical, which punctures the culminating murder; Johnston's words here sound true as could be to Valle-Inclán's scathing style.

Theatre/David Murray

Bracing 'barbarous comedy'

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Back then, we met Don Juan lordling it over the countryside in general and competing with his pretty young son "Silverface" for Sabella, the frail object of their simultaneous passions. In *Ballad* that is becomes a guilt-racked widower, and his four surviving sons are the amoral, rapacious "wolves" who circle him while he treads a wild way towards his end. This involves a company of 20 (close to a record for the Geta, surely?) - all employed to

excellent purpose, and set off to brilliant advantage by Farr's tirelessly alert staging.

As in *Silverface*, we have the sense of watching an intimate epic from the inside. The arena is minuscule, but mined with trapdoors, the walls around it and us conceal icons, alcoves, windows, vistas, secret passages. The "bare" space, as designed and lit by Angela Davies and Tanya Burns, becomes many vivid places in quick succession: farms, fishing villages, a chapel, even the nameless place where a lone horseman gallops in terror

(sound: Seb Lee-Delisle) - and again puppets spring up unexpectedly to speak for the peasantry.

The fabric of the spectacle is nevertheless Valle-Inclán's text, as translated and "adapted" - how much? - by Johnston. It conjures up a whole Galician world, a late 19th-century throwback with its own mores, hierarchy and dry style, in which there is no longer any pretence of belief. Everybody's conversation switches moment-by-moment between lofty apophthegms, wise saws and sharp down-to-earth observations, often brutally funny.

Music in London

War theme retreats on the South Bank

The business pages recently contained a surprise reversal for the London Philharmonic. Only months after Lord Young arrived on the orchestra's board and offered to soften the blow of the election of the management by securing private sector help, the white knight was himself unseated at Cable and Wireless.

Where this leaves the orchestra remains to be seen. Since Franz Welser-Möst's abrupt departure there has been no music director and now there is nobody in control of artistic management. To an outside observer the orchestra's finances also look shaky, to say the least: a month into the autumn season the London Philharmonic took the unprecedented step of cancelling half a dozen of its South Bank concerts "owing to financial restrictions".

One of them was to have been the opening concert in its mini-series "The Road Beyond", helpfully subtitled "Music commemorating the end of World War II" to make its purpose clear. Evidently Messiaen's huge *Turangalila-symphonie* looked too much for the accountants to bear. What they left was Welser-Möst conducting Britten's *War Requiem* and a pair of concerts with Markus Jansons over the weekend.

The orchestra is fortunate to have conductors like these who are prepared to stand by it. Jansons, in particular, is in demand the world over from financially secure orchestras which can put on concerts that are guaranteed to happen. It is a measure of the London Philharmonic's resilience that he comes back and the players certainly gave their best for him, playing on both evenings with their highest degree of precision.

The second world war theme was taken up in Thursday's programme

with a rare performance of Honegger's Third Symphony, composed in 1945. It is a strangely unsatisfying work, not joyous at all. The constituent parts - rhythm, timbre, structure - are well conceived, but they fail to add up to music of any palpable depth. After despatching that with élan, Jansons went on to a dynamic performance of Mahler's First Symphony, too showy in the first two movements, but nicely macabre in the third and triumphant in the fourth. Every note had meaning, always the sign of a first-rate conductor.

His other concert, on Sunday, turned its attention less successfully to the 19th century. Michael Malsky threw himself energetically into Schumann's Cello Concerto, aiming to make up with fervour what he lost in poise. The natural warmth of the German romantic style eluded him, as it did Jansons later in Brahms's Second Symphony. Too much there was heavily emphasised and brassy, intended to dazzle the ears rather than uplift the spirit, though the finale was undeniably exciting. The orchestra's hyper-brilliant playing was clearly what Jansons wanted.

One problem, though, amid this Schumann and Brahms, what had happened to the second world war? All we had was Schoenberg's 15-minute *A Survivor from Warsaw* - a grim war-time narrative, but little more than a nod towards the theme. Perhaps it would be better to forget festivals for the moment and concentrate on balancing the books. The London Philharmonic has its own war to fight and being a survivor must be its first aim.

Richard Fairman

Concerts sponsored by Cable & Wireless and Pioneer.

Homage to Mahler

The Nash Ensemble continued its exploration of the music of Mahler and his circle, "Vienna and the Romantic Century", at the Wigmore Hall on Saturday with an intriguing chamber-version of *Das Lied von der Erde*, begun by Schoenberg quite soon after the war's appearance in 1909 and abandoned with only half the first song transcribed. It was not until the 1980s that Schoenberg's task was completed, with largely convincing results, by the German conductor Rainer Rhiem.

Schoenberg's version was an act of homage to a revered master, designed to further Mahler's cause at a time when his current popularity could hardly have been predicted. *Das Lied* in its full orchestral garb hardly needs special pleading these days. But, even so, such arrangements can often reveal unexpected facets of a masterpiece, clarifying, amplifying and occasionally challenging our understanding not only of the arranger but, in the case of a composer of equal stature, of the arranger too.

It was clear, for instance, from Saturday's performance that Mahler needs a full orchestra even when his textures are stripped bare. Mahler is often admired for the chamber-like delicacy of much of his orchestration, such as when a mere handful of instruments weave their solitary lament across the denuded landscape of "Das Abschied". But it really needs the context of a full orchestra for the utter desolation of that final song to be fully captured.

Paradoxically, the arrangement sounded best when it needed to work the hardest. The opening "Das Trunkene vom Jammer der Erde"

(the Schoenberg fragment) on five each of woodwind and strings with piano and harmonium beeping up the textures was every bit as thrilling and effortful as with full orchestra, even when the sound itself veered inevitably and uncertainly between the wheezing of an opera-house pit band and the smarmy kitschiness of a Palm Court orchestra. Elsewhere Rhiem, with the help of two percussionists, achieved some convincing replications of Mahler's more exotic orchestral effects, not least in the *chinoserie* of "Von der Jugend" and in the ominous gong strikes at the beginning of "Das Abschied".

Reduced forces certainly helped the soloists, the Austrian Herbert Lippert and the Prague-born Dagmar Pecková. Lippert, as befits a German speaker, made much of the text and sports an attractive lyric tenor which worked well in this music, highlighting the mellifluousness of Mahler's vocal writing even at its most straining. Pecková's German, however, ranged from the phonetically proper to the downright creative, robbing us of that extra edge of meaning for which even her gloriously rich, even mezzo could not quite compensate.

Both singers would have benefited from more confident support from the ensemble. Ian Brown's conducting was functional rather than inspirational, unsure of larger perspectives and rarely achieving a fully expressive dynamic range, as was confirmed by a stiff, unsmiling and distended reading of Wagner's *Siegfried Idyll* in which even the Nash players seemed tentative. Too little rehearsal time, perhaps?

Antony Bye

This is the last in Ramón del Valle-Inclán's sequence of "Barbarous Comedies", written between 1907 and 1922. At the tiny Geta Theatre we saw the earliest part, *Silverface*, last month; *Ballad of Wolves* arrives hard on its heels and proves just as entrancing and bracing an experience, again directed by David Farr.

I have not discovered how many plays should come between them: the translator David Johnston speaks of a "trilogy", but other authorities refer to "several". Valle-Inclán plays about Don Juan Manuel de Montenegro, the lusty Galician patriarch, the lusty Galician patriarch, the lusty Galician patriarch.

At any rate, seeing *Ballad of Wolves* without knowing that earlier chapter should incur no great

loss, except the pleasure of having seen *Silverface* too.

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Bartók and Franck; 7pm; Dec 6

● BBC Scottish Symphony Orchestra 60th Anniversary Concert with conductors Jerzy Maksymiuk and Martyn Brabbins; pianist Dmitri Alexeev and Evelyn Glennie on marimba. The orchestra perform works by Berlioz, Rachmaninov, Musgrave, Elgar and the world premiere of Ian Hamilton's "The Transit of Jupiter"; 7.30pm; Dec 7

● Hamburg

OPERA & OPERETTA Hamburgische Staatsoper Tel: 49-40-351721

● Händel and Grell: by Humperdinck. Conducted by Rainer Mischbach and performed by the Hamburgische Staatsoper. Soloists include Wolfgang Schöna, Yoko Kawahara-Stobinski and Renate Spingler; 7pm; Dec 7, 10 (also 3pm)

● Innsbruck

EXHIBITION Tiroler Landesmuseum Ferdinandeum Tel: 43-512-59489

● Zauberei der Leinwand - 100 Jahre Film in Alt-Tirol: exhibition devoted to the film history of Tirol; from Dec 7 to Feb 4

● Leipzig

CONCERT Gewandhaus zu Leipzig Tel: 49-341-12700

● Gewandhausorchester; with conductor Christoph von Dohnányi, violinist T. Timm and cellist J. Timm perform Brahms' "Concerto for Violin and Cello in A minor" and

Stravinsky's "The Firebird"; 8pm; Dec 7, 8

● London

CONCERT Barbican Hall Tel: 44-171-6388891

● English Chamber Orchestra; with conductor/pianist Christoph Eschenbach perform Stravinsky's "Pulcinella Suite", and Mozart's "Piano Concerto in A" and "Symphony No.38 (Prague)"; 8pm; Dec 9

● Royal Festival Hall Tel: 44-171-9604242

● The London Philharmonic; with conductor Franz Welser-Möst and pianist Peter Donohoe perform Mozart's "Symphony No.40" and Bartók's "Piano Concerto No.3" and R. Strauss' "Metamorphosen"; 7.30pm; Dec 6

● St. John's, Smith Square Tel: 44-171-2211061

● London Music; with conductor Mark Stephenson and dancers Kate Coyne, Rafael Bonachela and Steven Brett perform works by Tippett, Julian Anderson, Keith Burstein and Maxwell Davies; 7.30pm; Dec 6

● Wigmore Hall Tel: 44-171-9352141

● Raphael Oleg and Barry Douglas: the violinist and pianist perform works by Poulenc, Elgar, Brahms and Beethoven; 8pm; Dec 8

● OPERA & OPERETTA London Coliseum Tel: 44-171-6380111

● Il Barbiere di Siviglia; by Rossini. Conducted by Jane Glover and performed by the English National Opera. Soloists include Alan Ope, Jean Rigby and Charles Workman; 7.30pm; Dec 7, 9 (8.30pm)

● Royal Opera House - Covent Garden Tel: 44-171-2401200

Matthäus der Mäler; by Hindemith. Conducted by Esa-Pekka Salonen and performed by The Royal Opera. Soloists include Inga Nielsen, Christiane Oelze, Wolfgang Fasler and Robert Tarr; 7pm; Dec 6

● New York

CONCERT Alice Tully Hall Tel: 1-212-875-5050

● Juilliard Orchestra; with conductor Otto-Werner Mueller perform the overture to Gluck's "Iphigénie en Aulide", Berg's "Violin Concerto" and Prokofiev's "Symphony No.5"; 8pm; Dec 8

● OPERA & OPERETTA Metropolitan Opera House Tel: 1-212-362-6000

● Mahagonny; by Weill. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Irene Stratz, Helga Demosch and Kenneth Riegl; 8pm; Dec 6, 9 (1.30pm)

● POP MUSIC Carnegie Hall Tel: 1-212-247-7800

● The New York Pops; with conductor Skitch Henderson and The King's Singers; 8pm; Dec 8, 9

● Paris

CONCERT Salle Pleyel Tel: 33-1 45 61 53 00

● Orchestre Philharmonique de Radio France; with conductor Marek Janowski and pianist Gerhard Oppitz perform Brahms' "Piano Concerto No.1" and Mendelssohn's "Symphony No.3"; 8pm; Dec 9

● THEATRE Comédie Française, Salle Richelieu Tel: 33-1 40 15 00 15

● Mille Francs de récompense; by Hugo. Directed by Jean-Paul

Roussillon. The cast includes Simon Eine, Nicolas Silberg, Dominique Rozan and Catherine Ferran; 8.30pm; Dec 6

● San Francisco

OPERA & OPERETTA War Memorial Opera House Tel: 1-415-6216600

● Don Giovanni; by Mozart. Conducted by Donald Runnicles and performed by the San Francisco Opera. Soloists include Deborah Riddle, Daniela Dessi, William Shimell and John Mark Ainsley; 7.30pm; Dec 7

● Vienna

JAZZ & BLUES Konzerthaus Tel: 43-1-7121211

● Dave Brubeck Quintet; with the Wiener Jeunesse-Chor, Das Kleine Orchester, soprano Frances Pappas and baritone Martin Winkler perform works by Dave Brubeck; 7.30pm; Dec 6

● OPERA & OPERETTA Wiener Staatsoper Tel: 43-1-514442960

● Salome; by R. Strauss. Directed by Michael Schoenwandt and performed by the Wiener Staatsoper. Soloists include Anja Silja, Karen Huffstodt and Michael Pabst; 8pm; Dec 6

● Zurich

OPERA & OPERETTA Opernhaus Zürich Tel: 41-1-258 6866

● La Fille du Régiment; by Donizetti. Conducted by Marcello Panni and performed by the Oper Zürich; 7.30pm; Dec 7

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CONCERT Concertgebouw Tel: 31-20-5730573

● Julie Kaufmann; accompanied by pianist Irwin Gage, violinist Marijke van Kooten, cellist Michel Weidner and Peter Luit on double bass. The soprano performs work by Kurtág and Schoenberg; 8.15pm; Dec 8

● BARCELONA

CONCERT Palau de la Música Catalana Tel: 34-3-2681000

● Pinchas Zukerman and Miro Nelin; the violinist and pianist perform works by Schubert,

BOSTON

CONCERT New England Conservatory - Jordan Hall Tel: 1-617-282-1120

● Günther Schuller 70th Birthday Celebration: the NEC Symphony Orchestra with conductor Richard Hoernick, guest conductor Günther Schuller and pianist Veronica Jochum perform Schuller's "Piano Concerto No.2" and Mahler's "Symphony No.9"; 8pm; Dec 6

● DUBLIN

OPERA & OPERETTA Gaiety Theatre Tel: 353-1-6771717

● Faust; by Gounod. Conducted by Paul Ethuin and performed by the Dublin Grand Opera Society; 7.30pm; Dec 7, 9

GLASGOW

CONCERT Glasgow Royal Concert Hall

COMMENT & ANALYSIS

Europa • Pedro Schwartz

The price of work

The high level of unemployment in Spain has led to fears that it could prove a time bomb under the single currency

The large number of unemployed people in Spain is felt as a wound within the country and feared as a menace elsewhere. At the last count, according to statistics approved by Eurostat, the European Commission's statistics office, there were 3.8m jobless in a workforce of 15.7m; they amount to 22.7 per cent of the working population, and a fifth of them have been out of work for three years or more.

An increasing number of Spaniards are therefore voicing doubts about their capacity to compete. In Brussels and the rest of Europe, there are fears that Spanish unemployment, which makes for high deficits and encourages protectionist emotions, may prove to be a time bomb under the single currency and even the single market.

The first reaction to such a high rate of joblessness – double the EU average – is to declare it unbelievable. How can Spain be socially stable with unemployment never below 15 per cent in the last 20 years? There must be a mistake in the calculations.

The official figure of 22.7 per cent comes from Spain's working population survey, based on data from selected households and using methods approved by Eurostat. All those willing to work who have been employed for less than an hour during the previous week are classified as unemployed.

Other statistics give lower figures for unemployment. Those registering as unemployed at INEM, the National Institute for Employment, amount to 16.2 per cent of the working population. This must be nearer to reality, say the employers. They point to labour shortages, especially in construction, and an increasing number of immigrants in menial tasks.

In despair at such a wide discrepancy between registered unemployment and the figure based on the household survey, the authors of a

thoughtful monograph published by Spain's official Economic and Social Council recommend measuring the number of the employed rather than the unemployed.

Even the working population survey says the number of employed people has increased by 350,000 in the last 12 months. The survey shows, incidentally, that the increased demand for labour is enticing women into the labour force and thus also increasing the number of registered unemployed – because they register as unemployed when looking for work. The situation in the Spanish labour market is clearly improving, in keeping with the upturn of the economic cycle in 1994.

Two other official statistics lead one to think that the number of the employed is somewhat larger than that uncovered by the survey. First, the number of people paying their social security contributions is more than 13.1m. Although there may be some double counting of those who have two jobs, this is a useful indicator. Second, according to the Spanish treasury there are 12m wage earners and professionals, excluding those in Navarre and the Basque country, deducting taxes monthly or quarterly from their income. Since the count excludes some 800,000

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people working in those two autonomous territories, it gives a number for the employed nearer 13m than the 12.1m of the survey.

Furthermore, an official survey of 1985 found that at least 8 per cent of people in work in Spain did not declare their employment or pay social security contributions. Add the fraudsters registered as rural unemployed under special schemes in the south of Spain, and the proportion of the working population in the submerged economy is even larger.

If the working population survey's figure of 3.8m unemployed is reduced by the 1.3m reasonably assumed to be working in the black economy, and the number of those employed (including the fraudsters) is likewise increased from 13.1m to 14.4m, one arrives at a rate of unemployment of 15 per cent. However one measures joblessness in Spain, the rate is the highest in the EU. The next step is to ask why, and whether the situation could be changed.

There have been two bouts of labour shedding in Spain since the death of the dictator Franco. The first took place from 1975 to 1985 and coincided with the two oil crises that put Spain's energy-intensive industries in jeopardy. This was followed by a golden period of foreign investment with Spain's entry into the Common Market.

Then came a new reduction of employment in 1992-93, almost double the job losses during the oil crises: the Spanish economy was feeling the harsh winds of competition blowing from Europe, compounded by an artificially overvalued peseta in search of respectability for the European Monetary System.

One might hope that the Spanish economy is now in as good a shape as its British equivalent after the purges carried out by Margaret Thatcher, and that shedding labour has gone as far as it can. But this is far from cer-

tain. Apprenticeship, previously opposed by the unions because apprentices were not paid enough, has only recently been legalised again; and workers below 20 years old – half of whom are unemployed – are still not being trained sufficiently on the job. Many older workers stay in employment only because it would be so expensive to fire them.

Hence, growth per se will not bring an end to unemployment rates in double digits. Wages must fall; wage differentials must widen; and generous unemployment benefits must not be an obstacle to entry in the labour market.

But it will be a tall order for any government to bring an end to the proverbial rigidity of the Spanish labour market. The Socialist government finally plucked up its courage in 1994 and partially reformed the existing labour laws: temporary employment was allowed to increase; employment agencies, previously a state monopoly, were legalised, although only on a non-profit basis; the cost of shedding labour in unavoidable circumstances was reduced; and workers could legally be moved from one task to another and from place to place, although only with union approval.

But most dismissals still cost the company 45 days' wages per year of employment. And the labour market is still split between the two thirds permanently employed and the one third with temporary jobs. Employers, in other words, keep workers they do not necessarily want, and do not necessarily hire the ones they do want because of the costs involved.

The opposition Popular party will have a tough assignment in dealing with unemployment if it reaches power at the next general election in March.

The author is chief economist at Fincorp AV, the Madrid stockbroker

LETTERS TO THE EDITOR

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Structural dilemma of an inner and outer EU

From Sir Roy Denman

Sir, Discussion of the coming European summit in Madrid on December 15 risks missing one essential point. For when the summit turns to the intergovernmental conference on the future of the European Union, it will be addressing the wrong questions.

To imagine that the present group of 15 hopelessly disparate members will be able to come to meaningful conclusions is quite unrealistic. The UK government is paralysed by its Eurosceptics like a rabbit before a snake. Greece is an

economic basket-case. The lira and the peseta are spurned by the Germans. In Sweden the public opinion polls show that they do not want even the present degree of integration, let alone anything closer.

The next significant step in the construction of Europe will have nothing to do with the intergovernmental conference. It will be the decision in two years' time by an inner core of member states, around France and Germany, to move ahead with economic and monetary union.

This will be as momentous and constructive a step as the

Treaty of Rome in 1957.

Equally momentous will be the organisational implications. The present Commission will not be able constitutionally to service simultaneously an inner and an outer group.

Might not a new treaty be necessary between the members of the inner group, with a new small executive which would deal with economic union, foreign policy and defence? Would then the present Commission be left, like the Organisation for European Economic Co-operation in 1958, servicing

what was essentially a loose free-trade arrangement? What would be the relation between the inner and the outer group, not just in monetary policy, but generally?

These are not agreeable questions for a country whose xenophobes are determined to place it in the outer tier. But Britain's continuing folly is no excuse for Europe not facing the real questions about its future.

Roy Denman,
194th Avenue de Tervuren,
1150 Brussels,
Belgium

Infuriating

From Mr Peter Christensen

Sir, As a dedicated reader of the FT all my adult life I am writing to note with alarm the unravelling of Joe Rogaly's normal cogent reasoning in his espousing a whingeing tolerance of American late-in-the-day intervention ("The president's magic", December 2/3). This has become an infuriating western mantra-like point of view.

As the Balkan inferno raged unchecked for years on western Europe's doorstep, with its concomitant slaughter of innocents, have we learnt nothing this century? The EU's short-memory diplomats gloriously dithered in hand-writing exercises of inaction. Is this terror not going on in the garden of your neighbour?

As a Canadian living in the northern shadow of the US behemoth, I will certainly not engage in boosting the US, but I would respectfully suggest Mr Rogaly examine a little more closely the EU diplomats' unconscionable inactivity in this tragedy.

Peter Christensen,
474 Wilbrod Street,
Number 301,
Ottawa,
Canada

Little evidence of gold price weakness

From Mr H B Junz

Sir, We would not agree with your Lex column (November 29) which appears to argue that, at least in the case of gold, everything that goes up must come down and then go down a bit further.

Quite the reverse: 1995 is shaping up as a banner year for demand for physical gold and this strength of demand certainly is a factor in the recent tightening of near-term gold liquidity.

In contrast with Lex, we consider demand in the Asian markets strong. True, third quarter year-over-year growth in south-east Asian markets was down; but this decline must be seen in relation to the strong third quarter a year ago and it came on top of five successive quarters of year-over-year growth of around

20 per cent. Accordingly, gold demand in south-east Asia in the first nine months of 1995 was ahead of 1994 by 11 per cent, surely a non-negligible amount.

Add to that the 30 per cent increase in gold demand in the largest market in the world, India, and it is difficult to agree with Lex that we are seeing a downturn in demand in Asia.

Further, experience does not show jewellery purchasers to be so price-sensitive that the latest price rally – \$381 to \$388 per ounce – would have much effect, especially as this remains smack in the middle of the \$370-\$395 per ounce range, within which the price has fluctuated since November 1993. In fact, the latest upswing in jewellery demand dates from the second quarter of

1994, when the price of gold had risen by around \$10 per ounce from its end-1993 level. Finally, it is difficult to argue about credit or discredit of inflation hedges in a disinflationary environment. Interestingly, a number of countries now battling inflationary trends, such as Turkey, Thailand and China, have seen small increases in gold demand following the emergence of inflationary pressures; though, in honesty, these also are countries with a high gold affinity.

H B Junz,
director, gold economics
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UK

Switched on to a compelling audio tape

From Mr Cyril Aydon

Sir, May I endorse Max Wilkinson's "motorway test" of audio tapes ("Poetry in motion", December 2) and his praise of Prunella Scales' reading of Jane Austen's *Emma*?

One winter night long ago, I drove from Oxfordshire to

Barclays Bank's training centre in Ashdown Forest, and chose this tape as my companion. Not only could I not switch the tape off while driving, I could not do so on arrival, even though there were several chapters still to go, and I was faced with having to give

an early morning lecture. Like John Betjeman's subaltern, I sat in the car park till twenty to one.

Cyril Aydon,
The Marroes,
South Newington,
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Oxon OX15 4JQ, UK

Developing role for Islamic banks and financial institutions

From Dr Endre Stiansen

Sir, Your Islamic banking survey (November 28) suggests that prohibition of *riba* is the raison d'être for Islamic banking and that *riba* generally is equated with interest. The focus on interest is misleading because the core of Islamic ethics on economics is the prohibition of exploitation. Hence the financial techniques developed by modern Islamic banks and Islamic financial institutions may be interest-free while not Islamic in a true sense.

Moreover, the definition of

murabaha given in the glossary cannot be regarded as valid because, if followed, the resale would be risk-free for the investor. However, the example given by Mr Salameh is permissible because the Islamic bank (that is, the seller or investor) is exposed to risk. But it should be noted that most *murabaha* transactions are not desirable because the element of risk is in fact non-existent.

The articles gave an interesting picture of problems and perspectives but certain questions were not asked. For

instance, if a country fully implements the principles of Islamic banking as commonly understood (interest-free), should there be a central bank and how should it operate, and what should an Islamic government do when or if it needs to finance a deficit? Other significant unresolved problems are how to encourage savings, how to channel funds into necessary but non-profitable ventures, and how to guard against moral hazard.

Finally, where does one draw the line between investments

and speculation (*gharar*) which also is illegitimate? Undoubtedly Islamic banking is here to stay and it is to be hoped that Islamic banks will use some of their funds to finance economic development in the poorer countries of the middle east, Asia and Africa. Indeed, maybe they can make a difference in development banking, where conventional banks have failed.

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David Lascelles on the link between central banks and derivatives

After the gold rush

Last week's liquidity crisis in the gold market, caused by a shortage of readily available metal, has highlighted a little-known but significant fact: central banks have become deeply involved in the business of lending gold to dealers to enable them to engage in speculative trading in gold derivatives.

Furthermore, the Bank of England has a lucrative sideline in managing these lending activities on behalf of other central banks which are too wary to approach the market themselves.

To its credit, the Bank of England took the initiative in drawing wider attention to these activities. In a revealing speech to a recent London gold conference, Mr Terry Smeeton, the Bank's gold expert, said central bank activity in the market – once largely driven by monetary considerations – was now almost entirely focused on providing liquidity for derivatives trading.

The volume of central bank gold lent to the leading players in the London market for forward trading had more than doubled in the past 18 months, he said. There had been a similar growth in central bank involvement in the gold options market, though on a smaller scale.

Mr Smeeton did not give any hard figures, but gold analysts believe the amount of central bank gold "in play" is now about 2,500 tonnes.

The central banks provide the missing link in the gold forward market. When a gold producer wants to hedge its output, it looks in a price by selling its production forward to one of the bullion banks. They have to balance the purchase of the forward gold with the sale of real gold into the



Gold fever: luckily no innocent bystanders were hurt

This is not the same as using foreign exchange reserves to influence currency movements, where a critical national interest is involved. The gold market is not crucial to currency management, nor to monetary policy.

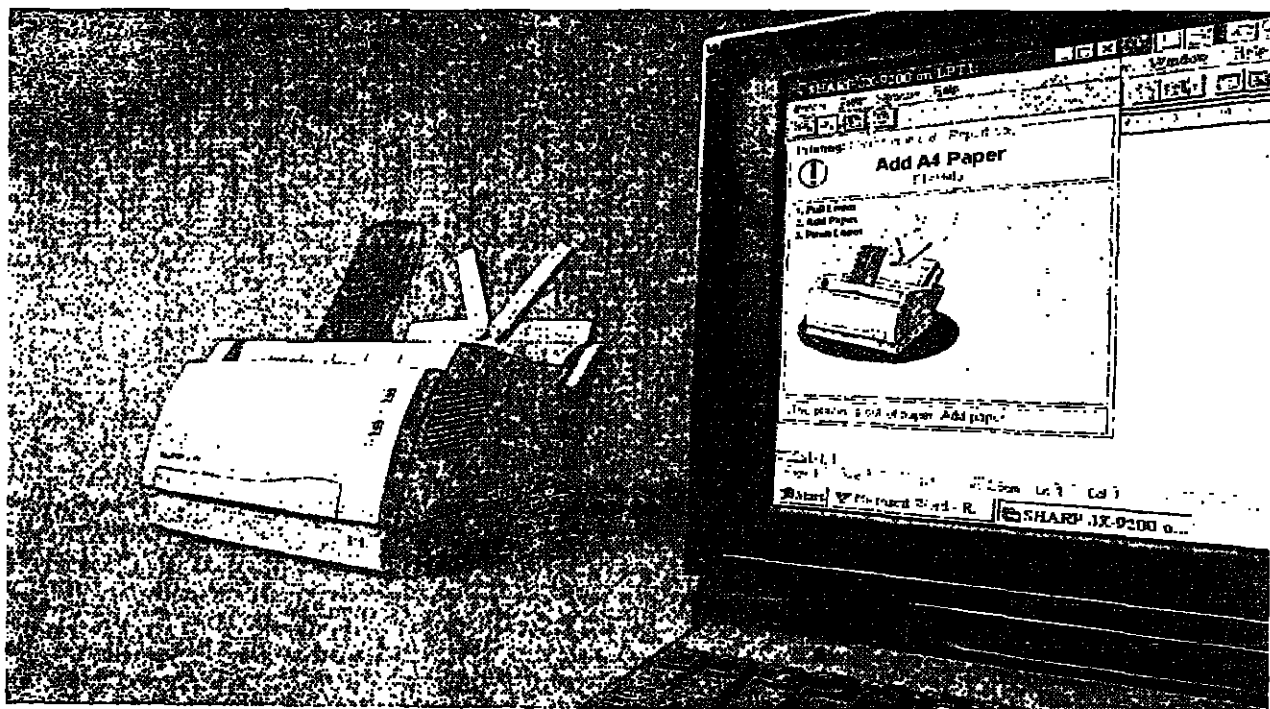
Admittedly, central banks have always taken a proprietary interest in the gold market. But these days, their involvement looks more like favouritism: if gold gets held, why not silver, zinc and tin?

If central banks have a legitimate interest in preserving the value of their gold holdings, they would do best to withhold their gold from the market altogether.

A further question is whether it is even right for central banks – for reasons of prudence or morality – to facilitate speculation in gold by dealers, since that is essentially what they do when they take on forward contracts: I imagine that some people will be shocked to discover that respectable institutions are using national gold stocks in this way. Central banks should not try to stop people trading in derivatives. But given the well-known dangers of this area, should they actively encourage it?

Fortunately, no innocent bystanders got hurt in last week's shenanigans. But the episode should give pause for thought among central bankers. They may have felt they were doing the market – and themselves – a good turn by providing liquidity.

In reality, they were hulling the market into a false sense of security, with potentially costly consequences. It would have been the height of irony if central bankers had to bail out a bullion bank whose troubles they themselves had created.



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سكدا من الامن

FINANCIAL TIMES

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Tuesday December 5 1995

Il n'y a pas d'alternative

France is paying a high price for the divisions in its conservative majority which preceded this year's presidential election.

Edouard Balladur won popularity as prime minister by avoiding confrontation either with President Mitterrand or with the massive vested interests opposed to the public-sector reforms that France so badly needs. Jacques Chirac, forced to compete with Mr Balladur for the presidency, could only win back public support by resorting to shameless demagoguery.

This obscured the basic conservative message, that the French state was living beyond its means and would have to be cut back by measures which were bound to mean sacrifices for many French citizens. Now faced with that unpleasant truth, the French are understandably angry, to the point where many, perhaps most, of them are prepared to support the strikes which are close to paralysing France's economy.

Undoubtedly Alain Juppé has made tactical errors in presenting his reforms to the French public. He and President Chirac took six months to decide their priorities, wasting what should have been the government's honeymoon. They lost Alain Madelin as economy minister - the one senior politician who consistently articulates a liberal economic strategy and who, moreover, understands the need for austerity to be accompanied by microeconomic reforms reducing the cost of labour.

Mr Juppé, an accomplished administrator but woefully lack-

ing in charisma, has also failed to give clear signals about the extent of privatisation he plans, and his public warning that his government "would not survive" if 2m people were to take to the streets was quite bizarre. Seldom can a prime minister so literally have asked for trouble. Mr Chirac, meanwhile, has held somewhat aloof from the crisis, risking the impression that he considers his prime minister expendable.

Mr Juppé seems also to have chosen deliberately to confront all vested interests at once rather than pick off his opponents one by one (as Baroness Thatcher did in Britain in the 1980s). This apparently reckless strategy was presumably dictated by the electoral timetable. With parliamentary elections due in spring 1998, no more favourable moment for a confrontation than the present one is in prospect.

France is in for a rough few weeks, but they will be worth it if Mr Juppé is able to salvage the main items in his programme, exploiting the fact that neither the trade unions nor the Socialist opposition have any credible alternative to offer. Early elections would make no sense, and a referendum should not be necessary. What is needed is for the president to explain clearly to those who elected him why not all he promised can be delivered at once, and why the sacrifices now demanded are necessary not only to meet the Maastricht criteria but to increase the chances of greater prosperity in the future.

Road block

The vision of the great car economy, endorsed so enthusiastically by Margaret Thatcher, the former prime minister, has been abruptly and brutally erased. Spending on Britain's roads over the next 12 years is to be cut by one third - from £12.3bn to £8.4bn. According to figures released by the Department of Transport on Budget night, 77 schemes have been cut or scrapped.

This is a sharp acceleration of an existing trend. Against a background of public protests against new roads, the government has argued for a while that the motorway and trunk road network is almost complete, and that future programmes will focus on easing bottlenecks. But the size of the cuts, and the way in which they were announced, are questionable.

For a start, policy changes of such importance should not be hidden in the raw data of the public spending round, which is, by custom if not necessity, discussed in secret. Nor is it proper that Sir George Young, transport secretary, should justify the cuts as a response to opinions expressed in the transport debate which his department is now conducting, but which is only half completed.

In theory, opening up road building to the private sector and improving public transport could compensate for the cuts; indeed, they are attractive as part of long-term policy. Ministers claim to be doing both. Unfortunately,

their attempts appear inadequate. The Private Finance Initiative, which Sir George describes as "the centrepiece" of the roads programme, does not yet appear ready to bear the weight placed on it. The Budget announced a third tranche of 35 private road schemes, worth £600m. Nonetheless, that takes the total of private road finance to only £1.1bn, a quarter of the planned total. Moreover, the government's failure so far to announce the winning bidders for the first tranche hardly suggests that the initiative will have a rapid impact. In time, toll motorways may provide an escape from arbitrary Treasury cuts, but they could represent an economically costly transport policy, without national road pricing.

Sir George also says that his priority has been to protect funding for public transport. But total public transport spending, already low by international standards, is forecast to fall from £2.3bn in 1994-95 to £1.5bn in 1998-99. Although this fall partly reflects expected efficiencies from privatisation, it will compound congestion arising from the roads cuts.

The impact of the cuts in the road programme and the steady squeeze on public transport will not be evident for years. That is why they are easy targets for cost cutters. Nonetheless, they threaten to deprive the UK of the infrastructure it needs if it is not to enter the next century clogged and congested.

Unidon't

The US government announced in Vienna yesterday that it is quitting the United Nations Industrial Development Organisation at the end of next year. That body has long been top of the hit list in Washington's threatened onslaught on UN institutions, so the decision is scarcely surprising. The question is rather whether the US move will have a salutary effect in forcing Unido to reform itself, or simply cause it to collapse in disarray and bitterness.

Unido was set up to promote industrial development in developing countries, to mediate between their governments and multinational corporations, and enable them to get the best possible deal from foreign investors. It worked most often with governments running command economies, and has long been regarded with healthy suspicion by western governments as a top-heavy, bureaucratic organisation, with a patchy track record in promoting worldwide development.

Most of the command economies have disappeared, and most developing countries have established a wide range of industries. Moreover, industrial development is no longer regarded as a unique solution to economic development, to be treated in isolation. The organisation clearly needs radically to rethink its role.

A fairly drastic process of reform has been launched by the new director-general, Mexico's Mauricio de María y Campos, who

has slimmed down the central bureaucracy from 1,200 staff to about 900, and brought in specialists to focus its work on practical projects. Its assistance to central and east European countries in adapting their crumbling state enterprises to the market economy has won praise in those countries. Its success in Africa has been less obvious.

The US has now decided to quit while those reforms are still working their way through the system. It has done so with arrears in its own legally assessed budget contributions of some \$89m still outstanding. That is unfortunate, as it undermines Washington's valid criticisms of Unido's shortcomings, and the realisation that the reforms need to go much further. The European Union has, in contrast, decided to stay and judge by results in the course of the coming year.

That said, the US is right that the best outcome would be to close Unido down, and transfer its valuable functions to another UN agency. Such a move would give an important signal that UN bureaucracies are not eternal, but can be adapted to changing circumstances.

Washington's financial black-mail may not be a good way to conduct international relations. But it does give the remaining members a chance to take a long-overdue decision: identify the best bits, preserve them, and scrap the rest of the organisation.

A dose of strong medicine

Although pharmaceuticals groups have cut jobs in the wave of mergers and takeovers, the prognosis for the UK industry is good, says Daniel Green

The past year has been a period of unprecedented change for the UK pharmaceutical industry. The six companies that made medicines one of the UK's most successful industries have been reduced to three. The sector has been hit by a series of plant closures and job losses.

Yet shares in the UK's leading drugs companies tell a story of success: they have been among the best performers on the stock market, reaching a succession of new highs in recent months.

The developments have left employees, executives and investors struggling to discern the underlying direction of change. Are the days of UK pre-eminence in the European pharmaceuticals industry numbered? Or has the restructuring helped to strengthen the UK's position as Europe's most important pharmaceuticals centre?

Certainly there has been a decline in the number of UK world-class pharmaceuticals businesses. A year ago there were six: Glaxo, Smith-Kline Beecham, Zeneca, Wellcome, Fisons and Boots.

Several US companies, including Pfizer, Merck and Syntex, also had their biggest European research and manufacturing operations in the UK. Overall, the industry employed almost 75,000 in 1994, up almost 20 per cent from the mid-1970s, and contributed £1.7bn (£2.6bn) to the UK trade surplus, its seventh successive yearly rise.

But the structure of the business has been transformed by a series of deals: Boots ended 80 years of prescription medicine manufacture in November last year by agreeing to sell its drugs business to BASF of Germany for £280m.

Wellcome succumbed to a £9.1bn hostile takeover bid from Glaxo in March.

Fisons was taken over last month by Rhône-Poulenc Bore, the US drug company controlled by French chemicals group Rhône-Poulenc, after a contested £1.8bn bid battle.

These deals have led to a spate of job losses. BASF cut 250 people from the Boots businesses it bought. Glaxo Wellcome is cutting 1,700 UK jobs. RPR is expected to announce cuts in February following its takeover of Fisons.

Job cuts are also happening in companies not involved in takeovers. Bristol-Myers Squibb of the US closed a Somerset plant earlier this year with the loss of 974 jobs. Hoechst Marion Roussel, the German-controlled US company, is expected to cut a significant number of the 1,200 it employs in the UK over the next few months.

The changes in the UK reflect the restructuring of the global pharmaceuticals industry, which is under pressure to reduce costs. Govern-

ments in countries such as the US, Germany, France, the US, Japan and Italy have been looking for cuts in their drugs bills to curb rising healthcare costs.

And US health insurers - egged on by the corporate clients which pay most insurance premiums - have been following suit. The "health maintenance organisations" they use to manage their costs have been forcing down prices by, for example, requiring doctors to use cheaper varieties of popular drugs.

The industry has responded by abandoning research programmes of doubtful value, merging sales forces and reducing the number of manufacturing and administrative sites. This has been accelerated by the wave of takeovers, which has created greater scope for rationalisation.

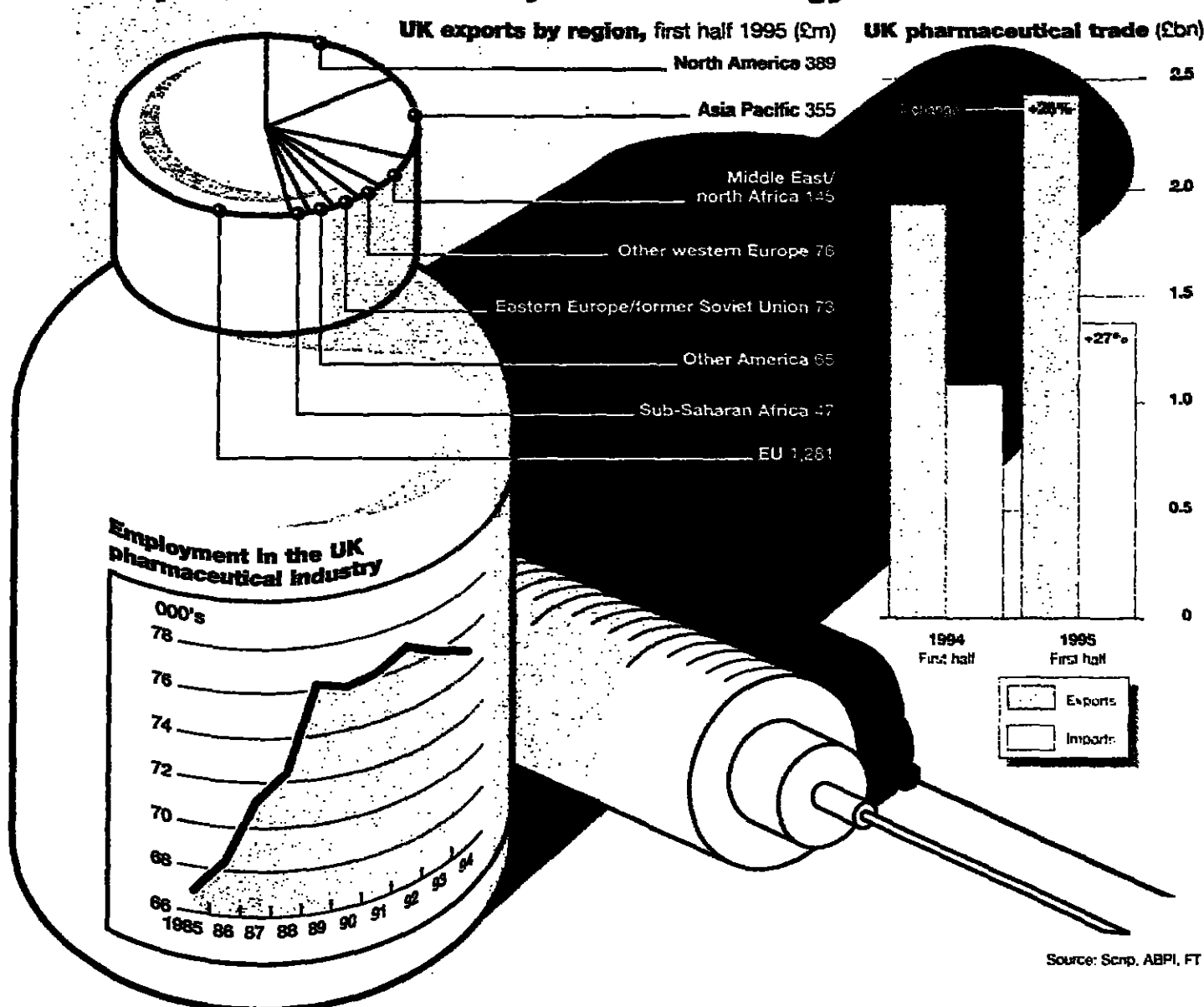
The effects have been felt in all countries with significant pharmaceuticals industries. In the US, for example, the industry added 10,000 jobs a year throughout the 1980s to reach 260,000 in 1993. Since then, the number of employees has remained static - even though sales have continued to rise strongly.

In Germany and Switzerland, the main centres of the drugs industry in continental Europe, strict labour laws make job cuts on a large scale difficult. But even in these two countries, the number of people in pharmaceuticals is drifting downwards: companies are simply leaving vacancies unfilled, executives say.

However, in the UK, some of the reduction in employment is being matched by the arrival of new businesses.

When Sweden's Pharmacia and Upjohn of the US announced their merger in August, for example, they said they would locate their headquarters in the neutral territory of London. And when Syntex, now owned by Switzerland's Roche, decided to abandon its drug development centre in Edinburgh, it found a buyer in US company Quintiles which specialises in conducting clinical trials.

UK pharmaceuticals: injection of energy



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Contract research of the sort carried out by Quintiles is a growing

business as drugs companies increasingly farm out research work. In the early 1980s only 2,000 were employed in the UK in this way. Now the UK employs about 8,000 in pharmaceuticals contract research - 40 per cent of the European total, according to Technomic, a specialist consultancy.

Politicians and industrialists are quick to trumpet the importance to the UK of such gains. Mr Stephen Dorrell, health secretary, likes to quote Mr John Zabriskie, chairman of the merged company Pharmacia and Upjohn, who said: "London is the centre of the globe in terms of the pharmaceutical industry."

Sir Richard Sykes, chief executive of Glaxo Wellcome, now the world's biggest drugs company, says: "The industry will continue to be a great contributor to the balance of payments and I don't think there will be any further change downwards in pharmaceuticals industry employment of any significance."

His optimism is tempered with a determination to keep employment within the company down and move resources to external partners such as biotechnology companies.

"Ten years ago very little research paid for by us would have been carried on outside the company," he says. "Now that has changed. In principle there is nothing that cannot be farmed out

although some things, such as toxicology testing, are easier than others."

The factors which made the UK industry so strong remain attractive:

● The cost of employing research scientists is lower. They are as good as scientists in France, Germany, Switzerland and the US, but employment costs there are up to twice those in the UK, according to Mr David Barnes, chief executive of Zeneca.

● Local investment is encouraged by the UK Pharmaceutical Price Regulation Scheme, the rules that have set the prices paid for drugs by the National Health Service since the 1950s. It allows drugs companies to make a return on capital of between 17 per cent and 21 per cent. Most of the rest Europe sets prices for individual drugs after sometimes tortuous negotiations between government officials and drugs company executives.

● The growth of biotechnology companies has been encouraged by the UK's capital markets, in particular the stock exchange flotation rules, which are less onerous for new companies than in some other countries. The UK now has 8,000 people working in biotechnology companies, according to the Bio-Industry Association. The figure is rising by between 10 per cent and 15 per cent a year, it says.

The UK's attractiveness has increased further since February,

when London became home of the European Medicines Evaluation Agency. An arm of the European Commission, the agency issues drugs licences for the EU, avoiding the need to apply in each of the 15 member states. Already Bayer, the German company, has moved its European regulatory office to the UK because of the agency, and others are likely to follow.

Unions with members in the industry believe that the loss of jobs will not be offset by the new arrivals - Bayer's office will employ about 30, for example. "Takeovers lead to rationalisation and we are expecting more takeovers," says Mr John Chowat, assistant general secretary of MSP, the UK trade union with 15,000 members in the drugs sector. He believes that future growth in the industry will require more incentives for research and development.

But most industry executives are more optimistic. The UK dominates Europe in contract research and fast-growing smaller companies. New businesses are arriving to make up some of the reduction in employment. Britain is likely to remain at the heart of European drug research and manufacturing. "It doesn't matter if the UK has three big companies or six smaller ones," says Mr Jan Leschly, Smith-Kline's chief executive. "All three are doing very well today compared with five years ago. It's very healthy."

OBSERVER

A bridge far too dear

We've all heard the one about the American seeking out London Bridge to grace the shores of Lake Mead, Arizona. When what they really wanted was Tower Bridge. Now it seems they didn't get London Bridge either, or at least, very little of it.

For down in the county of Devon, in south-west England, huge chunks of the old bridge have been auctioned off in a quarry acquired by Albrighton, a quarrying and stone products group.

A bit of research among some of the quarry's old releases has disclosed that, back in 1971, the London landmark's new American owners were horrified at the cost of transporting the entire edifice across the Atlantic. They resorted to slicing off only a few inches of the 160-year-old stone to use as chiselling on a concrete replica - leaving behind more than 1,800 blocks of the real thing.

Since that replica has taken over and the chiselled stones have been removed, providing a useful range from the weathered to the sharp. What is to do with them now is the challenge facing Albrighton. Woodman, who quit as managing director of brickmakers Patrick in 1985 after falling out with his board colleagues before promptly setting about building up Albrighton,

The Merivale granite quarry, between Princetown and Tavistock, happens to be on Duchy of Cornwall land. Woodman wonders if the Duke of Cornwall - who the Prince of Wales - might want a few tons of stone to break down and sell as souvenirs in aid of one of his good causes. Now, who could he recruit for the stone-breaking gang...

Dear stalker

It's not been a great year for Siegfried Ott, 80, the majority owner of Giesecke & Devrient (G&D), one of the Bundesbank's main banknote printing contractors. First, his much younger wife, Bambi, and he decided to get divorced. Now it's just emerged that he repaid DM100m in taxes two years ago, in what is thought to be one of the largest "late payments" in German tax history.

He paid up under a legal device which guarantees immunity from prosecution, provided one comes clean on a tax debt before the tax authorities start an investigation.

No law appears to have been broken, but Ott's tax problem was pretty longstanding by his own account: he said it derived from 12 years of undeclared income earned from a Swiss company.

Ott's private dealings are, of course, separate from those of G&D, his Munich banknote printer of which he owns 93 per cent and

which prints the banknotes of 60 countries. Though it hardly covers either him or his company in glory, it's believed that he does not have the contract to print notes for Ruritania.

Tres chic

Only one issue could knock politics from the number one news spot in strike-bound France yesterday - sport. At lunchtime Guy Druet, minister for youth and sport, announced the name given to the huge white elephant sports stadium being built just outside Paris to house 1998's football World Cup.

After an intense discussion of the possibilities - including numerous political figures, sportsmen and even colours - the collected wisdom of the 14 specially-selected jury members came up with the highly inventive "Le Stade de France".

Your time is up

We hesitate to mention it, but there's a politician who seems to be getting something right. It's Israel's prime minister, Shimon Peres. He has instructed his cabinet secretary, Shmuel Hollander, to place a timer - similar to those used by chess players - next to him on the conference table. Ministers are given five minutes to say whatever

is on their mind.

This is an extremely sensible idea. It should be applied to all business meetings, seminars, international conferences - in fact wherever a group of self-important figures sit down to sound off. The savings would be enormous.

Of course Peres does not apply the timer to himself. "With the prime minister, it is unnecessary because he always keeps it short," says Hollander.

Stubbed out

Singapore's a tough place if you break the rules, as Nick Leeson is learning. But it's not just errant derivatives traders that earn black marks. Smokers aren't wanted, either.

Visitors flying in are warned not to light up in the airport terminals. A smoking ban already covers hospitals, clinics, department stores, bowling alleys, offices and factories. Now the no-puff zone has been extended to underpasses and, confusingly, queues of two or more persons in public areas.

Singapore's ever vigilant press has been out on the streets, reporting shocking stories of wayward persons - mostly foreigners - flouting the ban.

Presumably if you want to smoke in a queue you should first take a few paces backwards, so you are in a line all of your own. Not that Observer encourages rule-busting...

Financial Times

100 years ago

Railroad rumour scorned
The passage in President Cleveland's Message which refers to trade relations with Germany has been received with considerable satisfaction. But it is not surprising to find that in the Fatherland itself it has produced very different feelings. In order to please the agriculturists Germany has placed restrictions on the import of American food products. It is now feared that the expression of opinion by the President may lead to a diminution of the exports from Germany to the United States. Although we are not disposed to rejoice in the misfortunes of our neighbours, yet Germany is so keen and occasionally so unscrupulous a competitor that we cannot but feel some satisfaction when the engine of protection, of which she makes so much use, is employed against her.

50 years ago

Car contract for Australia
The Austin Motor Company has announced that one of Australia's largest body-building plants is to be used for the building and finishing of Austin car bodies. Under an agreement with Rusk Motor Bodies of West Melbourne, Victoria, the Australian firm will supply bodies to the principal Austin distributors throughout Australia.

Paris and Washington in disagreement over name of peace treaty
US-Franco rivalry on Bosnia dealBy Lionel Barber and Bruce
Clark in Brussels

Western governments will today start fine-tuning their plans to impose peace in Bosnia amid growing signs of Franco-US rivalry over who should take credit for the agreement.

France insisted yesterday that a forthcoming treaty to end nearly four years of war in Bosnia would be known as the Elysée Treaty, after the French presidential palace, and not the Dayton accord, after the Ohio city where the deal was negotiated.

Mr Hervé de Charette, the French foreign minister, also insisted that the conference in Paris set for December 14 would do substantial diplomatic business as well as providing a setting for the deal to be formally signed.

The French insistence on maximum fanfare for the Paris conference highlighted more substantial differences over the proposed peace-keeping effort in Bosnia, especially over the degree of civilian control to which US commanders would be subject.

Mr Warren Christopher, the US secretary of state, is expected to insist at a meeting of Nato foreign and defence ministers today that the US generals in charge of the 60,000-strong peace implementation force should have maximum freedom of action.

However, Mr de Charette insisted yesterday that it was still an open question how much



Some of the first soldiers in Nato's 60,000-strong Bosnia deployment arrive at Sarajevo airport

authority would be enjoyed by the civilian political adviser or advisers who will work with General George Joulwan, the Nato commander in Europe.

France has been pressing for the civilian advisers to have broad terms of reference and the right to appeal directly to Nato ambassadors in Brussels.

On another sensitive issue, Mr de Charette said it was vital that tens of thousands of Serbs in the suburbs of Sarajevo receive guarantees of safety when they are

transferred to the authority of Bosnia's Muslim-led government. Bosnian Serb leaders in Sarajevo said yesterday they would hold a referendum on December 12 on whether to accept the treaty.

Both Mr de Charette and Mr Carl Bildt, the European Union mediator, said it was essential the Serbs be assured that their lives and property would not be in danger. The US is expected to react warily to any arrangements for the Serbs which could be interpreted as a revision of the

accords negotiated in Dayton last month. France also insisted successfully that a conference on reconstruction in Bosnia, scheduled by the European Commission for this month, be downgraded to a preliminary consultation between experts.

Both France and Britain agreed that more time was needed before a full-scale donors' conference can usefully be held.

Doubts grow over Slavonia deal, Page 2

SE Asian contest for \$1bn motor plantBy Edward Luce in Manila
and Ted Bardecke in Bangkok

The Philippines and Thailand are vying to win a \$1bn investment from General Motors, which is seeking to establish a south-east Asian production facility.

Company officials confirmed that the US vehicle maker was planning to set up an assembly and parts manufacturing site and had narrowed its choice to Thailand or the Philippines.

The Detroit-based company is sending a team of executives to the Philippines next week to look at several special economic zones, including the Subic Bay free port, the former US naval base, as possible sites.

A similar trip to Thailand was

made in October, after the car company eliminated Indonesia, Malaysia and Vietnam as possible sites.

Mr Rolando Navarro, the Philippine secretary for trade and industry, said his government would submit a generous incentive package - including free use of land for between three and five years, exemption from property tax and various duty and tax holidays - at the end of GM's visit.

The package, to be settled by a committee of senior ministers, would include pledges to improve road and port facilities and provisions for subsidised labour training, he said. Mr Navarro said this was the first time the country had offered rent-free land use to a foreign company.

Manila says it will also draw attention to its English-speaking workforce and rapidly growing car market - sales have grown almost 30 per cent this year. It estimates that the investment would create 2,500 direct jobs and more than 30,000 indirectly.

Both the Thai and Philippine markets are dominated by Japanese car companies. Many have already chosen Thailand, where the vehicle market is also growing at about 20 per cent annually, as their centre for export and parts operations in the region.

US companies have entered the region through Thailand. Chrysler began production of Jeep Cherokees this year and Ford plans to produce 130,000 pickup trucks in Thailand by 1998.

Thai officials are offering GM an "aggressive" package to win the project - including tax incentives and flexibility on foreign ownership limits - but see the country's advantages for car production as the biggest attraction.

Among those advantages are the largest car market in south-east Asia, with 450,000 vehicles sold in 1994, compared with 103,000 in the Philippines. Thailand's vehicle market will top 850,000 units in 2000, compared to 275,000 in the Philippines, according to the consulting group Automotive Resources Asia.

GM executives have expressed worries that, with so many car-makers, the Thai market may be saturated and its infrastructure strained.

THE LEX COLUMN

French flop

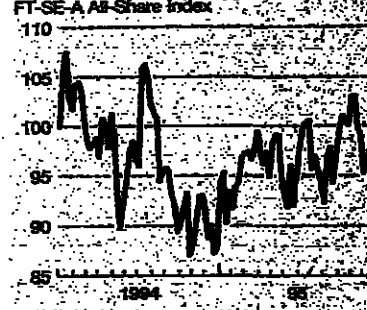
Cutting the size of Pechiney's share offering was, under the circumstances, the best option open to the French government. The latest French privatisation will now raise a maximum of FFrs.3bn (\$1.1bn), instead of FFrs.9bn. The number of shares to be sold by the government has not changed but the size of the simultaneous capital increase - new shares to be issued by the company - has been slashed. This should help get the deal done for two reasons: there are now fewer shares to be sold, and, perhaps more importantly, investors will be less concerned about dilution.

The government was right to push ahead, given the need to stand firm in the midst of political turmoil. It was also probably sensible not to drop the price below the indicated range. This could have looked too cheap in retrospect.

Yesterday's action may well have averted a disaster, but the deal will still be classed as one of France's privatisation flops. That is partly due to extremely difficult market conditions resulting from the social unrest sparked by the government's deficit-cutting plan. The complex structure of the transaction, with two different share swaps, and concern over cyclical volatility proved a further turn-off. This is not entirely the Treasury's fault, but its privatisation record is unimpressive. The effect of another poorly managed privatisation offering is likely to be the cooling of any residual enthusiasm among investors for French privatisation stocks - and less money for the state's empty coffers.

FT-SE Eurotrack 200:
1557.7 (+7.0)

British Airways

Share price relative to the
FT-SE 100 All-Share Index

Source: FT Ltd

BA, Europe's most commercially-minded airline.

One complication is that both BA and KLM already have US partners, USAir and Northwest. A four-way alliance would be immensely strong, but would probably run into problems with US regulators for precisely that reason. Moreover the existing alliances are unsatisfactory: USAir's performance has been poor, and Northwest and KLM are engaged in a public row. That could point to scrapping both alliances and starting afresh, perhaps with American. But the upheaval would be huge.

A less ambitious move would be to ditch one and concentrate on the other: if so, Northwest - bigger, and more international than USAir - looks the obvious survivor.

Airline alliances

Rumours of an alliance between British Airways and KLM refuse to go away: despite a denial from KLM, the latest talk sent British Airways shares up 3 per cent yesterday. The reason the market is excited is that an alliance would be excellent news. The airline industry is oversupplied and ferociously competitive; alliances help by taking out duplicated costs, and making better use of resources, cutting out empty and low-yielding seats.

KLM and BA have been here before: they tried to merge five years ago but failed because terms could not be agreed. Yet KLM, increasingly conscious of its marginal position in Europe, is still committed to finding a European partner. And an alliance with KLM would suit BA: there is more room for expansion at Schiphol than at Heathrow, and KLM is, after

Capital expenditure

Hanson last week took an uncharacteristic step forward in the battle for accounting transparency with its move to split out "maintenance" capital expenditure from investment for growth. By revealing the sums that need to be reinvested in a business to maintain the life and quality of its assets, investors can calculate free cash flow - the amount of cash a company is generating for expenditure on growth, acquisitions or dividends.

Sadly such information may not, on its own, add much to the sum of investor knowledge. There is clearly subjective judgment involved in deciding whether investment is for expansion or maintenance. For example, building a new production line could be an investment in growth or a move to replace existing ageing plant. Given a

choice, most managements would stress the former. Another potential benefit of giving more information is that it would enable investors to evaluate how profitably management was deploying the company's cash - in particular, whether it was earning more than its cost of capital.

Unfortunately, merely splitting capital expenditure into maintenance and growth components will not do the trick. More detail about how particular investments have performed and how new investments are expected to perform would be needed. This does not mean Hanson's move is worthless, merely that it needs to be seen as the start, not the end, of a process of opening up investment plans.

Forte/Granada

Forte's proposal to demerge its restaurants from the hotel business is an astute opening move in its defence against Granada, even if it carries the whiff of scorched earth. First, it demonstrates Sir Rocco Forte is prepared to trade with the family silver, since the restaurant operations were the original core of his father's business empire.

Most important, however, it gets round Forte's inability to complete a sale of these assets at a full price now. Given its appeal to companies such as Whitbread and Bass, the new restaurant business would be bound to attract a bid premium. There would also be benefits from greater management focus, which has done wonders for previous demergers such as Zeneca and Chubb. Nonetheless, this would be offset by the loss of bulk-buying discounts from the combined hotel and restaurant business. A little bid hope, however, could justify a price-earnings ratio for the restaurant business of 16 times earnings for the year to January. This suggests a valuation, excluding debt, of \$1bn (\$1.6bn), compared with a \$750m book value.

Since Granada's offer was at a \$740m premium to book value, Forte will have to do much more to win. The \$1bn sale of its restaurants, plus the disposal of its Savoy stake and White Hart hotels, would leave a day-free hotel business; but the Granada offer would still value that business at around 20 times expected current-year profits. Until Forte commits to management changes and trophy asset sales, it will look vulnerable.

Additional Lex comment on Welsh Water, Page 26

Dutchman to chair Philips

Continued from Page 1

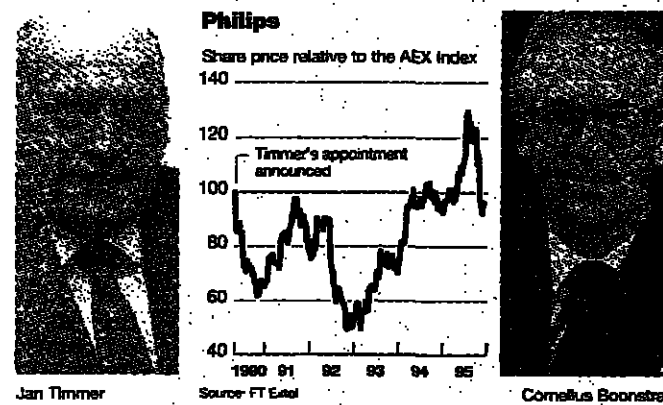
were underlined in February when he was relieved of day-to-day management at the lighting division to assume special responsibility for expanding Philips' presence in Asia.

Under Mr Timmer, Philips has set itself the ambitious goal of generating 25 per cent of its annual sales in Asia by the end of 1998. In 1994, Asia accounted for 15 per cent of group sales of Ft 61bn (\$38bn). Philips declined

to explain why Mr Boonstra was chosen to succeed Mr Timmer, apart from saying "he was the best available man for the job".

However, his strengths are believed to be his business background in Europe, the US and Asia and his experience of brand-building and marketing.

On his retirement, Mr Timmer will become a member of the supervisory board. The appointments must be approved by the annual shareholders' meeting on March 25.



Jan Timmer

Cornelius Boonstra

FT WEATHER GUIDE

Europe today

Cold air from Russia will move towards Germany and the low countries. It will be cloudy with light snow and afternoon temperatures below freezing. Poland, the Czech Republic and Russia will also be cloudy, but will stay dry. France and the UK will be cloudy with some sunny spells. Temperatures in eastern France will remain below freezing. Low pressure will produce cloud, rain and thunder in western Spain, the Balearics and Sardinia. Another area of low pressure over the Black Sea will result in cloud and snow from eastern Austria, across Romania, to Turkey.

Five-day forecast

High pressure over Scandinavia will produce cold easterly winds in the low countries and Germany, where temperatures will remain below freezing. It will be cloudy, but mainly dry. The UK will also have cloudy conditions with occasional showers. A series of low pressure systems will cross the Mediterranean resulting in cloud and rain in southern Europe. South-east Europe and Turkey will continue unsettled.

TODAY'S TEMPERATURES

Location	Maximum	Minimum	Weather
Abu Dhabi	31	21	sun
Accra	31	21	show
Algiers	13	13	thund
Amsterdam	13	13	show
Athens	16	16	sun
Atlanta	16	16	sun
Bahia	31	21	sun
Bangkok	31	21	sun
Buenos Aires	16	16	sun
Cairo	31	21	sun
Cardiff	13	13	sun
Chennai	31	21	sun
Columbo	31	21	sun
Dakar	31	21	sun
Dallas	16	16	sun
Dubai	31	21	sun
Dublin	13	13	sun
Edinburgh	13	13	sun
Frankfurt	13	13	sun
Geneva	13	13	sun
Glasgow	13	13	sun
Hamburg	13	13	sun
Helsinki	13	13	sun
Hong Kong	13	13	sun
Honolulu	13	13	sun
Jakarta	13	13	sun
Karachi	13	13	sun
Kuala Lumpur	13	13	sun
Lima	13	13	sun
Lisbon	13	13	sun
London	13	13	sun
Luxembourg	13	13	sun
Madrid	13	13	sun
Manila	13	13	sun
Medan	13	13	sun
Mexico City	13	13	sun
Miami	13	13	sun
Montreal	13	13	sun
Moscow	13	13	sun
Mumbai	13	13	sun
Nairobi	13	13	sun
Naples	13	13	sun
Nassau	13	13	sun
Nice	13	13	sun
New York	13	13	sun
Niagara	13	13	sun
Osaka	13	13	sun
Paris	13	13	sun
Perth	13	13	sun
Porto	13	13	sun
Prague	13	13	sun
Rangoon	13	13	sun
Riyadh	13	13	sun
Rome	13	13	sun
S. Francisco	13	13	sun
Seoul	13	13	sun
Singapore	13	13	sun
Stockholm	13	13	sun
Sydney	13	13	sun
Taipei	13	13	sun
Tel Aviv	13	13	sun
Tokyo	13	13	sun
Toronto	13	13	sun
Vancouver	13	13	sun
Venice	13	13	sun
Vienna	13	13	sun
Warsaw	13	13	sun
Washington	13	13	sun
Wellington	13	13	sun
Winnipeg	13	13	sun
Zurich	13	13	sun

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INTERNATIONAL COMPANIES AND FINANCE

AMERICAS NEWS DIGEST

Ammonia plant to be built in Chile

Enxex, the Chilean mining explosives company, is to go ahead with plans to build the first ammonia plant in Chile, a 400-tonne facility at Cabo Negro, near Punta Arenas on the Magellan Straits. It will process natural gas supplied by ENAP, the state oil and gas company, which will be a minority partner in the new venture.

Enxex also plans to more than double its current production of ammonium nitrate, the prime ingredient in commercial explosives, with a new 250,000-tonne plant alongside its existing facility at the northern Chilean port of Mejillones. Total production will reach 360,000 tonnes when the new plant is on stream, within about 30 months. The investment will be within a range of \$100m to \$200m, financed with a relatively small equity stake and with a project financing.

ICI Explosives, part of the UK-based multinational chemicals group, has also announced plans to build a 220,000-tonne ammonium nitrate plant in northern Chile. It currently supplies imported explosives. But Mr. James C. Boldt, finance officer at Austin Powder of the US, which holds a 22 per cent share in Enxex, says he would "be surprised if both plants get built". The explosives markets in Chile and neighbouring Peru are both growing rapidly, but Mr. Boldt estimates that Enxex's projected new capacity will account for much of the growth, and its direct supply of ammonia will give it cost advantages over the ICI project, which will import ammonia from the Caribbean spot market.

Imogen Mark, Santiago

Tembec sees strong demand

Tembec, an eastern Canada forest products group, sees turbulence in many markets, but says this should not affect the longer-term trend of strong world demand and higher prices. Tembec produces sawn timber, specialty pulps, carton board, printing papers and newsprint and export to more than 50 countries.

It reported net profit for the year ended September 30 of C\$118.6m (US\$86.8m), or C\$2.95 a share, up from C\$72.7m, or C\$2.24, a year earlier, on revenues of C\$873m, up nearly 75 per cent from C\$500m. Fourth-quarter net profit was C\$39.7m, or 90 cents a share, against C\$72.1m, or C\$2.22, a year earlier when a C\$65m special gain was included. Sales were C\$291m against C\$148m.

Robert Gibbens, Montreal

Laurentian Bank advances

For the year to end-October, Laurentian Bank, controlled by Quebec's C\$76bn Desjardins financial services group, posted a net profit before special items of C\$40.2m (US\$29.4m), or C\$1.83 a share, up from C\$38.8m, or C\$1.84, on fewer shares outstanding a year earlier. Return on equity was 9.3 per cent against 9.2 per cent. Total assets at October 31 were C\$12.7bn, up 21 per cent from a year earlier, mainly because of acquisition of North American Trust.

Robert Gibbens

Kmart halts Canadian unit sale

Kmart, the US retailer, has taken its 127-unit Canadian chain off the market. Hudson's Bay, owner of Zellers, the market leader, was negotiating for Kmart Canada, planning to absorb most of its stores, analysts said. But Kmart Canada said although it had received expressions of interest, the best offer was too low and "it's in our best interest to keep these stores". Analysts believe the US parent had put a C\$300m tag on its 12,000-employee Canadian chain, but Hudson's Bay offered only C\$180m. Dayton Hudson of the US is reported to be planning to enter Canada with its discount chain, but analysts say ultimately the Canadian market will support only two large national discounters.

Robert Gibbens

Barrick Gold establishes \$1bn credit for expansion

By Bernard Simon in Toronto

Toronto-based Barrick Gold has set up a US\$1bn credit facility to help finance its accelerating international expansion.

A Barrick official said yesterday: "Growth will be fuelled by exploration and acquisition. This is for the acquisition side." However, he added that no deals are immediately pending.

Barrick, which is the biggest gold producer outside South Africa, has markedly stepped up its exploration activities over the past year, especially in Latin America and east Asia. Its balance sheet is strong, with cash reserves of almost \$400m and a debt-to-

equity ratio of 13 per cent on September 30.

Barrick paid with shares worth US\$76m late last week for High Desert Mineral Resources, whose main asset is a 40 per cent stake in a promising deposit close to Barrick's flagship Goldstrike property in Nevada.

The sellers were a local couple, Mr and Mrs Ronald Sean Halavals. The Halavals, who staked their claim in 1985, will also be entitled to a 1 per cent smelter royalty on part of Goldstrike's Betze-Pot mine, and a 2 per cent interest in production from the High Desert property.

Denver-based Newmont Gold owns the remaining 60 per cent of High Desert, which is

located on the Carlin Trend, one of North America's richest gold-mining belts. Barrick and the Halavals have another joint exploration venture close to Newmont's existing Carlin mine.

Newmont has tentatively estimated that the High Desert property contains 3.357m tons of gold-bearing ore with a grade of about 0.353 ounces per ton. However, evaluation of the property remains at an early stage. A Newmont official said that completion of an underground mine is at least five years off.

The new revolving credit facility, with a five-year term, was provided by a group of banks led by Royal Bank of Canada.

Two Brazilian banks plan incorporation

By Jonathan Wheatley in São Paulo

A much-anticipated wave of mergers and acquisitions in Brazil's banking industry has moved a step closer with the planned incorporation by Banco Bandeirantes of Banorte, whose combined operations would rank eleventh in terms of assets, among the country's private-sector banks.

The banks said the incorporation would be achieved by transfer of stock between majority shareholders. No cash payment is involved.

In contrast to the acquisition of the "good" assets of Banco Nacional by Unibanco on November 18 after central bank intervention, this operation apparently involves two banks in sound financial health.

However, despite insistence that the move is a strategic measure unconnected with recent problems in the industry, there is speculation that Banorte has experienced difficulties in recent months. In August, the central bank intervened in two banks in the north-east, Banco Mercantil de Pernambuco and Banco Econômico de Bahia.

Analysts say Banorte has caused some concern because of its highly leveraged credit operations, making it vulnerable to any policy changes affecting the industry. The central bank has issued a string of measures governing credit and deposit requirements over the past year in efforts to manage the rate of economic growth following the introduction of a new currency in July 1994.

Swiss Bank Corporation, adviser to both institutions, said the banks recognised "the need to reach a certain critical mass" in order to operate more efficiently on a larger scale and tackle international markets.

Banco Bandeirantes is regarded as a conservative, traditional bank whose strength is in medium-sized corporate and private customers, mostly in the south and centre of Brazil. Banorte, which has invested heavily in information technology, has a similar customer profile in the north-east of the country.

IBCA, the international credit rating agency, said it would review Banco Bandeirantes' individual rating "with negative implications", citing doubts over Banorte's asset quality and rumours of funding problems.

Fleming expands into Peru

By Sally Bowen in Lima

Today sees the launch of Fleming Latin Pacific, a joint venture between Robert Fleming, the old-established, privately-owned British investment bank, and two former Peruvian government officials. They are Mr Carlos Montoya, until last month chief executive of Copri, the high-level privatisation commission, and Mr Emilio Zuniga, former president of state oil company Petroperu.

FLP has recruited a strong team for its new Lima office, with several others drawn from Copri. It will function in three main areas: capital markets, international mergers and acquisitions and research. Lima will serve as the base for FLP's projected expansion into the other Andean Pact economies of Colombia, Bolivia, Ecuador and Venezuela. Mining, oil, telecommunications, gas and power are the target areas.

Last week also saw the formal opening in Lima of a branch office of Merrill Lynch, the US investment bank. It builds on the two-year-old Lima operation of Smith New Court and will focus on research.

Tupperware decides it's time to party on its own

The company is being prepared for a separate role

For many people, especially Americans, the image of Tupperware is rooted in the 1950s. The name conjures up a vanished world: one in which plastic was still a novelty, and housewives had time to sit in each other's front parlours being instructed on how to store food in plastic bowls and boxes.

Indeed, the Tupperware company seemed until recently in inescapable decline. Fast-growing rivals such as Rubbermaid, which sold to retailers rather than direct to the home, were grabbing market share. By 1992, US sales of Tupperware had halved from a decade earlier, and the company - historically very profitable - reported a loss after closure costs of \$25m on sales of \$1.1bn.

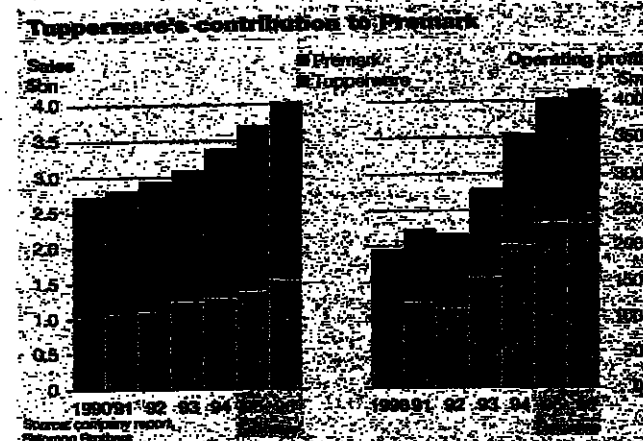
The picture is now rather different. This year, Tupperware stands to make profits of perhaps \$225m. This is despite continuing losses in the US, and a doubling in plastics prices which has badly dented the profit margins of its rivals. Its owner, the slightly obscure conglomerate Premark, has decided to spin Tupperware off as a separate public company.

The history of Tupperware's ownership is symbolic of the restlessness of US capitalism. Mr Earl Tupper, an inventive former employee of the chemicals group Du Pont, founded the company in 1942.

In 1956 he sold it to the Rexall Drug Company. In 1980 Rexall - now re-named Dart Industries - merged with the food group Kraft to form Dart and Kraft.

In 1986, Kraft was split off again, later to become part of the tobacco company Philip Morris. Dart, now consisting of Tupperware and a rag-bag of other products from floor tiles to exercise treadmills, was renamed Premark. Now Tupperware is to regain its independence, and the cycle is complete.

Tupperware's revival has several elements to it. The first had to do with morale. When Premark was spun off in 1988, it was made up of the problem businesses which Kraft wanted to get rid of. According to Ms Christine Hanneman, Premark



head of investor relations, it was not until a couple of years ago that Premark's management had solved enough of the problems across the group to be able to plan ahead.

In Tupperware's case, the fixing included bringing in a new boss, Mr Rick Gotsche, a specialist in direct selling from Avon, the door-to-door cosmetics company. His arrival, in late 1992, coincided with sweeping cuts in the US operation at a cost of almost \$140m.

With hindsight, though, Tupperware's problem was to an extent solving itself. If the Tupperware party is deeply old-fashioned in the US, it is remarkably durable elsewhere in the world. As US sales have shrunk, international sales have grown by 11 per cent compound over the past five years.

As a result, only 18 per cent of Tupperware's sales last year were in the US, compared with 42 per cent in Europe and 27 per cent in the Asia-Pacific region. In geographic terms, the tail is now wagging the dog. Given the growth in Asia, Latin America and the developing countries of Europe, falling sales in the US are no longer life-threatening.

The position is one Tupperware's rivals can only envy. Rubbermaid, in particular, is one of the most admired corporations in the US. But it is suffering intense pressure on prices from big US customers such as retail chain Wal-Mart.

Last year, only 18 per cent of Rubbermaid's sales were outside the US. Its target is 30 per cent by the end of the decade.

Tupperware's policy of not selling through retailers confers a further advantage at a time when plastic prices have gone through the roof. Since Tupperware carries the whole cost of its own marketing, promotion and distribution, raw materials make up a much smaller part of its total costs.

Thus, Ms Hanneman calculates the gross margins of Tupperware's rivals at about 30-35 per cent, while its own are 60-65 per cent. In the first nine months of this year, Tupperware's net operating margin has actually risen, from 12.6 per cent to 13.8 per cent. Rubbermaid's has fallen from 16.8 per cent to 12.7 per cent.

So where does Tupperware go from here? After the spin-off, it is likely to have a market value of \$1.5bn-\$2bn (the whole of Premark is valued at \$3bn).

Uncluttered by Premark's other assets, it might thus appear a toothsome morsel to an international consumer products group - a fact which will doubtless have played a part in the Premark board's decision.

In that case, the cycle started by Mr Tupper will be off for another spin. But that is corporate America.

Tony Jackson

Recommended Cash Offer by

N M Rothschild & Sons Limited and Indosuez Capital Limited

on behalf of

Lyonnaisse Europe plc

(a subsidiary of Lyonnaise des Eaux S.A.)

for

Northumbrian Water Group PLC

N M Rothschild & Sons Limited ("Rothschilds") and Indosuez Capital Limited ("Indosuez Capital") announce on behalf of Lyonnaise Europe plc ("Lyonnaise Europe") that, by means of a formal offer document dated and despatched on 4th December, 1995 (the "Offer Document"), Rothschilds and Indosuez Capital have made an offer (the "Offer") on behalf of Lyonnaise Europe to acquire all the ordinary shares of £1 each ("Northumbrian Shares") in Northumbrian Water Group PLC ("Northumbrian"). Terms defined in the Offer Document have the same meanings in this advertisement.

The Offer comprises 1165p in cash and a special dividend of 14p (net) for each Northumbrian Share. In addition, Northumbrian Shareholders will retain the right to receive the interim dividend declared by Northumbrian on 9th November, 1995 of 11p (net) per Northumbrian Share which will be paid within 21 days after the Offer is declared unconditional in all respects. (If the Offer does not become wholly unconditional or lapses, the interim dividend, which is not conditional on acceptance of the Offer, will be paid on 1st March, 1996.)

Holders of Northumbrian Shares, other than certain overseas Northumbrian Shareholders, may elect to receive loan notes to be issued by Lyonnaise Europe ("Loan Notes") instead of some or all of the cash consideration of 1165p per Northumbrian Share to which they would otherwise be entitled under the Offer on the basis of £1 nominal of Loan Notes for every £1 of cash consideration receivable under the Offer. Fractional entitlements to Loan Notes will be satisfied in cash. The Loan Notes will be transferable subject to certain restrictions, but no application will be made for the Loan Notes to be listed or dealt in on any stock exchange.

The full terms and conditions of the Offer are set out in the Offer Document and in the related Form of Acceptance. Accepting Northumbrian Shareholders may only rely upon the Offer Document and Form of Acceptance for all the terms and conditions of the Offer. Copies of the Offer Document and Form of Acceptance are available for collection during normal business hours from The Royal Bank of Scotland plc, Registrars Department, New Issues Section, 67 Lombard Street, London EC3P 3DL, N M Rothschild & Sons Limited, New Court, St. Swinith's Lane, London EC4P 4DL and Indosuez Capital Limited, Indosuez House, 122 Leadenhall Street, London EC3V 4QH.

Acceptances of the Offer should be received by no later than 3 p.m. on 27th December, 1995 (or such later time(s) and/or date(s) as Lyonnaise Europe may, subject to the City Code on Takeovers and Mergers, decide).

The Offer which is made by means of the Offer Document, is made to all holders of Northumbrian Shares, including those to whom the Offer Document is not being despatched and is, by means of this advertisement, extended to all persons to whom the Offer Document may not be despatched and who hold, or are entitled to have unconditionally allotted or issued to them, Northumbrian Shares.

The Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia or Japan or by use of the mails of, or by any means or instrumentality (including, without limitation, facsimile transmission, telex or telephone) of inter-state or foreign commerce of, or any facilities of a national securities exchange of, the United States. Accordingly, copies of the Offer Document, the related Form of Acceptance and any other related documents are not being sent and must not be mailed or otherwise distributed or sent in or into the United States, Canada, Australia or Japan, including to Northumbrian Shareholders with registered addresses in the United States, Canada, Australia or Japan. Persons receiving such documents (including, without limitation, custodians, nominees and trustees) should not distribute or send them in, into or from the United States, Canada, Australia or Japan, or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with the Offer, and so doing may invalidate any purported acceptance.

The Loan Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, nor have any steps been taken to enable the Loan Notes to be offered in compliance with applicable securities laws of Canada or Japan and no prospectus has been lodged with, or registered by, the Australian Securities Commission. Accordingly, the Loan Notes may not (subject to certain exceptions) be offered, sold, resold or delivered, directly or indirectly, in or into the United States, Canada, Australia or Japan or to, or for the account or benefit of, a "US person", as defined in Regulation S under the United States Securities Act of 1933, as amended, or a person in, or resident in, Canada, Australia or Japan.

Rothschilds and Indosuez Capital are acting exclusively for Lyonnaise Europe and its subsidiaries in connection with the Offer and no one else and will not be responsible to anyone other than Lyonnaise Europe and its subsidiaries for providing the protection afforded to its customers or for providing advice in relation to the Offer.

This advertisement is published on behalf of Lyonnaise Europe and has been approved by Rothschilds, which is regulated by The Securities and Futures Authority Limited, solely for the purposes of section 57 of the Financial Services Act 1986.

The directors of Lyonnaise Europe and Jérôme Monod, as Chairman of the Lyonnaise Group, accept responsibility for the information contained in this advertisement and to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this advertisement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Dated: 5th December, 1995

NOTICE IS HEREBY GIVEN that Bearer Share Certificates no. 1 representing 6,000 5% non cumulative preferred shares of US\$ 1. each and Bearer Share Certificates no. 2 representing a common share of US\$ 1. each in the capital stock of CROMTECH HOLDINGS N.V., a Company incorporated in Curaçao, Netherlands Antilles, whose registered office is at De Ruyterkade 82, Curaçao, Netherlands Antilles were reported as lost in Johannesburg, the Republic of South Africa on or about November 30, 1995.

Anyone with any knowledge of the present whereabouts of any of the Certificates is requested to contact the Company's Managing Director at the address below as soon as possible but not later than December 15, 1995.

If no information is received by December 15, 1995 the Company's Managing Board proposes to issue duplicate replacement certificates.

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De Ruyterkade 82
Curaçao
Netherlands Antilles
Tel: (599-9) 322525
Fax: (599-9) 322500
Telex: 3445 GTCO NA

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Next payment date : June 30, 1996

Amount : FRF 610.16 for the denomination of FRF 10 000
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Templeton

Templeton Global Strategy Sicav
Société d'investissement à capital variable
Centre Neuhberg, 30, Grand-rue, L-1600 Luxembourg
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Dividend announcement

As resolved at the Annual General Meeting of Shareholders held in Luxembourg on November 30, 1995, Templeton Global Strategy Sicav will pay the following dividends against presentation of the respective coupons:

Fund	Currency	Amount per Share	Coupon number	Payment date
Templeton Global Growth Fund - Class A	USD	0.1558	2	27.12.1995
Templeton Deutsche Mark Global Growth Fund - Class A	DEM	0.1426	2	27.12.1995
Templeton Global Infrastructure and Communications Fund - Class A	USD	0.0582	1	27.12.1995
Templeton Pan-American Fund - Class A	USD	0.1118	1	27.12.1995
Templeton European Fund - Class A	CHF	0.0382	2	27.12.1995
Templeton Asian Growth Fund - Class A	USD	0.1388	1	27.12.1995
Templeton Asian Smaller Companies Fund - Class A	USD	0.0262	1	27.12.1995
Templeton China Fund - Class A	USD	0.0934	1	27.12.1995
Templeton Korean Fund - Class A	USD	0.0216	1	27.12.1995
Templeton Emerging Markets Fund - Class A	USD	0.1407	2	27.12.1995

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The Shares are traded ex-dividend as from December 1, 1995.

For further information, Shareholders are invited to contact their nearest Templeton office:

Edinburgh 0131-469-4134 Frankfurt 069-272-23-272 Luxembourg 466667-212

The Board of Directors
December 1995

THE EMERGING MARKETS STRATEGIC FUND

ISSUE OF 500,000,000
REVERSE FLOATER BONDS DUE 1999
ISIN CODE : XS000021474

For the period December 1st, 1995 to June 30, 1996
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INTERNATIONAL COMPANIES AND FINANCE

BA and KLM deny partnership reports

By Ronald van de Krol in Amsterdam and Michael Skapinker in London

Shares in British Airways and KLM rose yesterday after a press report saying the two were involved in partnership talks - despite a firm denial of the story by the Dutch carrier.

KLM said there was no truth to the report in the Dutch newspaper *De Telegraaf* that three-way talks were taking place between BA, KLM and AMR, American Airlines' parent, to create a global alliance.

It also denied KLM and BA were again pursuing partnership talks, after earlier attempts ended in failure. BA said it was not its policy to comment on

partnership rumours. KLM's shares rose F1.40 to close at F157.70 on the Amsterdam Stock Exchange. BA shares rose 15p to 472p.

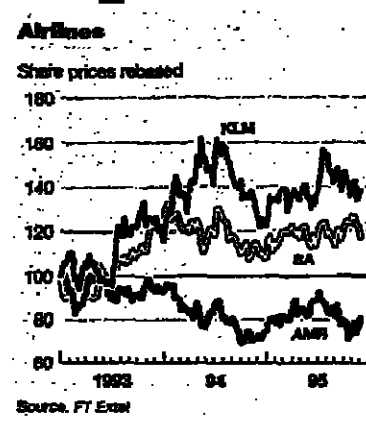
KLM said senior executives of the three airlines and other carriers saw each other regularly at industry events. "The gentlemen come across each other quite frequently at such occasions, and they naturally talk about the future of the aviation industry," it said. But the airline insisted there had been no partnership talks. The Dutch newspaper had described the talks as being at an "advanced stage".

KLM already has a long-standing US partner in Northwest Airlines, but relations between the two have been

strained by a "poison pill" mechanism put in place by Northwest to prevent KLM from expanding its stake.

Analysts said that, in the short term, KLM would not want to jeopardise its anti-trust immunity in the US and benefits from the US-Dutch "open skies" agreement by switching US partners. But the airline, hampered by its small domestic market, was clearly interested in achieving a link with other foreign airlines in future, they argued.

BA, which holds a 24.6 per cent stake in USAir, would benefit from a link with KLM as greater access to Amsterdam's Schiphol airport would help ease congestion at London's Heathrow. *See page 18*



Siemens buys half of Matra Transport

By David Buchanan in Paris

France's Lagardere group is to sell half of its Matra Transport division to Siemens of Germany. It hopes the move, which entails creating a joint company, will help reduce losses at its automated metro and train signalling unit.

Lagardere would not disclose the price of Siemens' half-share. But it said that taking account of Matra Transport losses, which amounted to FF723m (\$46m) last year, the deal - arranged by the group's own Banque Arjil - would boost 1995 pre-tax profits by FF300m.

Lagardere turned down an approach from Ansaldo of Italy in favour of Siemens, because of the latter's industrial and market muscle with a spread of factories and sales offices in Asia and north America, as well as Europe.

Under the agreement, due to be finalised this month, the joint company will retain the name of Matra Transport and will keep its headquarters in Paris. It will continue to be run by Mr Frédéric Allard, but with Siemens' Mr Wolfram Martinussen as supervisory board president.

Mr Martinussen hailed the deal as allowing Siemens, whose 14,000 strong transport division dwarfs that of Matra Transport's design and system integration team, to "enrich our range of products, particularly in the field of automated metros where Matra is the world leader".

The new company will also market Siemens' transport equipment in France. Siemens does not supply anything comparable with the VAL metro system that Matra has sold to Toulouse, Lille, Lyons and Orly airport in Paris, as well as Chicago and Taipei.

Only in Taipei will Matra and Siemens retain separate responsibility for the metro lines being built by both companies.

Matra's problem has been that it is a world leader in a market that has virtually collapsed, reflected in the fall in its turnover from FF1.5bn in 1992 to around FF500m.

EUROPEAN NEWS DIGEST

Volvo arm makes French acquisition

Volvo Construction Equipment, part of the Swedish vehicle group, has agreed to buy Groupe Pel-Job of France in an important expansion of its interests in smaller construction equipment. Terms were not disclosed for Volvo Construction Equipment's first takeover since it became a fully-owned unit of Volvo earlier this year. Previously, it was VME Group, jointly owned by Volvo and Clark Equipment of the US.

Pel-Job, based at Amey-le-Vieux, south-east France, is a well-known producer of mini-excavators, with strong market shares in France, Germany, the UK and Italy. It also makes compact loaders, dumpers and the Mecalic multipurpose machines, and had total sales last year of FF575m (\$16m). Mr Bengt Ovinger, president and chief executive of Volvo Construction Equipment, said Pel-Job was profitable. The deal brings Volvo Construction Equipment its first manufacturing plants in France. *Andrew Baxter, London.*

Codan in Norwegian sales deal

Codan, the Danish insurance company controlled by the UK's Sun Alliance, has signed a letter of intent with Fokus Bank, the third-largest Norwegian bank, for the marketing and sale of Codan's life assurance, pension and accident policies through the bank's Norwegian branch network. Codan is already represented in Sweden. Codan said the new agreement was part of its strategy for Scandinavian growth. *Hilary Barnes, Copenhagen.*

Viag joins network supply tender

Viag, the German energy-based conglomerate, yesterday became the second company to be awarded a licence to compete for the supply of a digital broadband communications network linking the 36 studios of the German ARD television service. A similar licence was granted to Vebsa, another conglomerate, last month. Other companies are also believed to have applied to tender for the ARD contract, expected to be decided next year. *Peter Norman, Bonn.*

Danone to control Africa venture

Danone, the French food giant, has bought a controlling stake in a joint venture with Clover, the South African dairy group, to launch value-added dairy products in Southern Africa. Danone will buy a minority stake in Clover for an undisclosed sum, estimated to be in excess of R200m (\$30m), but will control the joint venture to market yoghurt and soft cheeses. Dr Martinus Hermann, Clover chairman, said the joint-venture would enable Clover to expand its product range by manufacturing Danone's strong brand names in South Africa. The French multinational would also bring technical support and strengthen Clover's balance sheet.

In June 1995, shareholders funds were valued at R219m and debt at R40m. "There were other means to reduce debt, but we sought an equity stake because we want to list on the Johannesburg Stock Exchange within a year or two," said Dr Hermann. The group has a market share of about one third of the South African dairy market by volume. The transaction is due for completion in the third week of January. *Mark Ashurst, Johannesburg.*

■ Carrefour, the French retail group, posted sales in the first 11 months up 7.1 per cent at FF141bn (\$38.8bn). French sales rose 4.9 per cent to FF88.6bn. *AFP News, Paris.*

■ Bremer Vulkan, the troubled German shipbuilder, yesterday said its supervisory board chairman, Mr Johann Scheffler, had resigned. *AFP News, Bremen.*

Scania expected to maintain profits growth

By Haig Simonian in Södertälje

Scania, the Swedish heavy trucks group expected to be floated in 1996, should maintain the rapid earnings and sales growth seen in the first nine months this year, despite the more difficult trading conditions in Brazil and Argentina, two of its biggest markets, and slower growth in western Europe.

Scania's sales improved 35 per cent to SKr25.4bn (\$3.8bn) in the first nine months of the year.

However, some analysts are worried the company could suffer in the crucial pre-floatation period because of a cyclical downturn in Europe and the impact of deflationary economic policies on demand in Brazil and Argentina.

Concern about Scania's full-year results, to be reported in February, has been exacerbated by the replacement of its

established 3-series truck range with the new 4-series, unveiled in October. Although the new range - Scania's first for 15 years - has been well-received, analysts have been worried by the effect of the changeover, which will last until next October, when the 4-series will be complete.

Mr Leif Ostling, Scania's chief executive, said in an interview that the impact of the model change on output should be minimal, while the

new range would raise productivity once output was in full swing as it was quicker to build than its predecessor. The company wants to increase productivity to 3 trucks per employee on the 4-series, compared with 2.7 at present on the previous range, and just 2 trucks per employee in 1993.

He admitted there had been pressure on truck prices in Brazil and Argentina because of higher stock levels caused by manufacturers' reluctance

to cut output. But he said the worst was over in Argentina.

Mr Ostling refused to comment on speculation about the size or timing of the Scania flotation, directing all questions to investor, its parent company. He said Scania had not asked investor for a bigger allocation of resources next year to reflect the income from a possible float. Scandinavian analysts have speculated investor will sell up to 75 per cent of Scania's stock.

Coca-Cola puts lid on Swedish bottling row

By Hugh Carnegie in Stockholm

The prospect of the sudden disappearance of Coca-Cola products from Sweden was averted last night when the US soft drinks group reached agreement with its erstwhile local partner to continue supplies until the end of the year.

Earlier, Coca-Cola's Swedish partner of 42 years, Pripps, had

shut down its bottling of Coke, Fanta, Sprite and other Coca-Cola products and left 400,000 litres of drinks piled up in its depots - much of it offloaded from trucks ready to make deliveries - in angry reaction to the breakdown of its long-term agreement with the US group late last week.

In response, Pepsi-Cola and its local partner Spenstrup ordered an immediate trebling

of production, adding new shifts to bottling plant schedules. "It's a great opportunity for us," said Mr Lars Ottosson, in charge of Pepsi's business development in Sweden.

But Pripps later relented. Pripps' annual SKr1.4bn (\$214m) sales of Coca-Cola products account for one-third of turnover.

Further negotiations on the restoration of a long term relationship were not ruled out.

Under the present terms, Coca-Cola will take over full responsibility for its products in the Swedish market from January 1 next year, promising a sharp intensification of the battle for market share in Sweden.

The relationship between Coca-Cola and Pripps foundered during renegotiation of their deal after the recent merger of Pripps with the Norwegian brewer Ringnes. Pripps

said Coca-Cola made "unacceptable demands". It appeared Coca-Cola had become uneasy with the power Pripps exerts in the Swedish market. It has a 65 per share of the carbonated drinks sector, about half accounted for by Coca-Cola products and the rest its own brands. SA Pepsi distributor expands, *Page 24*

Iri appoints valuers in preparation for Stet sale

By Andrew Hill in Milan

Iri, the Italian state holding company, has appointed J. P. Morgan and Giubergia SBC Warburg to value its majority stake in Stet, the telecommunications holding company, which should be sold next year.

The appointment of valuers,

which was approved yesterday by the Italian treasury, completes the list of advisers to the sale. Barclays de Zoete Wedd and Mediobanca have already been appointed global co-ordinators to the offer.

However, the privatisation cannot take place until the Italian parliament has approved the detailed bill aimed at estab-

lishing the regulatory authority for the sector. Parliament approved the outline measures for the energy and telecoms sectors last month, and Mr Agostino Gambino, the telecoms minister, said he hoped to present the detailed decree for an authority this week.

It has said it would sell all its 64 per cent stake in Stet.

The telecom company's overall market capitalisation is about L21,000bn (\$13.1bn).

The timetable for Italian privatisations is extremely tight. By the middle of next year, the government wants to sell its outstanding stake in Ina, the insurer, a part of Enel, the electricity company, and Iri's majority stake in Stet.

The popularity of these offers could be affected by the performance of shares in Eni, the oil, gas and chemicals group which was partly privatised last month. Since they started trading a week ago, Eni shares have slipped to well below their offer price of L5,250. Yesterday they closed down L147 at L4,930.

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INTERNATIONAL COMPANIES AND FINANCE

Threatened Postbank predicts sharp rise

By Michael Lindemann
in Bonn

Postbank, the German postal savings bank, yesterday said it expected a sharp rise in net profits this year to about DM200m (\$133m), up from DM151m last year. It insisted the results proved it should remain independent of Deutsche Post, the postal service, which has launched a hostile takeover bid.

"Independence has done us good," Mr. Günter Schneider, chief executive, said. "The future success of the bank also depends on its independence."

Other options make no sense. The improved performance, announced earlier than usual and underlined by increased savings deposits and the expansion of Postbank's other new businesses, comes at a convenient time for Mr. Schneider, who is battling to defeat Deutsche Post's bid, launched in late September.

The German government has asked Schroders, the London-based investment bank, to recommend a solution to the tussle between the two state-owned institutions. They were once part of the same federal agency, but have since been hived off and are due to be partially privatised around 1998. Schroders is expected to report in early January.

It remains unclear, however, whether the improved results will significantly strengthen Mr. Schneider's hand. Deutsche Post, which made its bid in conjunction with Deutsche Bank and Swiss Re, has argued that the profitability of its own post offices - which house the Postbank branches - depends on a takeover of Postbank.

The bid has so far been well received by the government and the opposition Social Democratic party, both concerned to fulfil constitutional obligations which require that a maximum number of post offices are kept open.

In its preliminary figures, Postbank said it had been able to improve margins on its core business significantly. Savings deposits rose 4.7 per cent to about DM56bn in October. The number of current accounts had fallen from 4.8m to 4.4m, a trend that started when Postbank introduced bank charges a few years ago.

Before that current accounts had been charge-free. However, more clients were taking advantage of overdraft facilities, which rose from DM375m last year to total DM700m.

The number of the bank's credit cards, operated by Visa and Eurocard, had risen about 14 per cent and was expected to reach 275,000 by the end of the year.

Postbank also said that for the first time, more than DM1bn had been deposited in its equity and money market investment funds, set up two years ago.

Mr. Berendsen says the downturn in Nedlloyd's shipping operations in the third quarter also prompted the company last week to postpone a decision on whether to order two new ships. The ships, each capable of carrying 4,500 to 5,000 20-foot equivalent containers (TEUs), would have cost a combined \$170m.

Nedlloyd's second main business, European road haulage, posted flat results in the third quarter, with continuing difficulties at North Sea Ferries, a joint venture operated with P&O of the UK, masking improvements elsewhere. In Germany, where Nedlloyd has yet to make a profit on its 1989 acquisition of Union Transport (Unitrans), the company is slowly but surely making headway. Unitrans may reach an operational break-even point "some time in 1996 or 1997", Mr. Berendsen says.

Nedlloyd aims to accelerate out of trouble

The group plans to pursue land and sea partnerships, says Ronald van de Krol

Mr. Leo Berendsen is unaccustomed to disappointment. Since he took over the executive board chairmanship of Nedlloyd, in mid-1993, he appeared to have transformed the previously struggling Dutch transport group.

His triumph seemed assured last year, when the company paid its first dividend of the year. Nedlloyd appeared to have entered a period of normality, marking a break with the early 1990s when the shipping and road-haulage company had come under pressure from Mr. Torstein Hagen, the London-based Norwegian shipping investor, to divest its non-core businesses.

But Nedlloyd is back in trouble. All the previous good work appears undone: this autumn the shares have collapsed, with the result that since Mr. Berendsen took the helm the Dutch transport group has underperformed the market by 40 per cent.

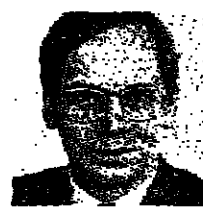
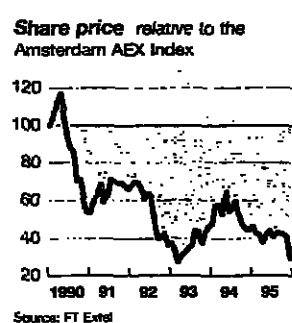
Referring to the past few weeks, Mr. Berendsen concedes that "it has not been a pleasant period". On November 29, Nedlloyd halved its profit forecast for the year and disclosed "serious irregularities" at its Austrian road-transport operations. Earlier, on October 9, the company had been forced to acknowledge it would not meet its original forecast because of disappointing results from its ocean-going shipping operations.

Since early October, the company's shares have lost more than 40 per cent of their value to stand at \$13.80.

Sitting in his office high above the port of Rotterdam, Mr. Berendsen insists he is not pessimistic. He says Nedlloyd will redouble its efforts to grapple with the strategic challenges facing the group's two main businesses - world-wide ocean-going shipping and European road transport. "I am

COMPANY PROFILE:
Nedlloyd

Market capitalisation	\$510.7m
Main listing	Amsterdam
Historic P/E	8.1
Gross yield	2.2%
Earnings per share, 1994	Fl 4.10
Current share price	Fl 31.80

Leo J.M. Berendsen
Chairman

Mr. Berendsen says Nedlloyd aims to speed up the development of its four-way partnership rather than slow it down. "As partners, we've already realised a great deal of rationalisation at sea. The next cost-cutting battle will be on land," he says.

His new focus is crucial for Nedlloyd's shipping line because, like other shipping companies, it incurs 70 per cent of its costs on land, not at sea. The four alliance partners have already negotiated their terminal contracts at various ports as a group. "The four of us have more purchasing power than Nedlloyd would have on its own."

Other possibilities for the future include co-operation on inland haulage to get containers from the ship to their final destination. These and other potential advantages must be "accelerated" as part of Nedlloyd's strategic response to

the challenge of operating in a low-dollar environment.

Mr. Berendsen says the downturn in Nedlloyd's shipping operations in the third quarter also prompted the company last week to postpone a decision on whether to order two new ships. The ships, each capable of carrying 4,500 to 5,000 20-foot equivalent containers (TEUs), would have cost a combined \$170m.

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The German business has been dogged in part by sheer bad luck. At the end of 1992, it was close to break-even when deregulation of the trucking industry caused cargo rates to drop by more than 30 per cent. This, and Germany's recession, have made the road to profitability a long one.

In road haulage, Nedlloyd plans to concentrate on its "home" market - the Benelux countries and Germany - and take a country-by-country approach elsewhere in Europe on where it should work with local partners and where it would have its own operations. Partnerships with partners in France and Scandinavia have already proved their worth, Mr. Berendsen says.

The irregularities in Austria would cost Nedlloyd "several tens of millions" of guilders in the fourth quarter, but the troubles would have no lasting effect, Mr. Berendsen declines to give details of what happened

in Austria, apart from saying "air" had been pumped into the books over a period of several years. Analysts said the Austrian operations had reported small profits but had actually been loss-making.

"The last word about Austria has not yet been said in this company," Mr. Berendsen says.

On the positive side, Nedlloyd, which rents out oil and gas rigs and which forms the heart of Nedlloyd's "Neddrill and others" sector, is going into 1996 with its equipment fully booked for the year. "To a certain extent Neddrill already knows its figures for next year," Mr. Berendsen says. The Neddrill sector generated operating results of Fl17m in the first three quarters, up from Fl14m in the same period of 1994. Sales were Fl182m against Fl170m.

In 1993, Nedlloyd considered selling Neddrill but it says it is now looking for a strategic partner for the business.

Mr. Richard Brakenhoff, transport analyst at Mees Pierson, the Dutch merchant bank, believes the company may eventually have to consider selling some of its businesses or its minority stakes in Europe Combined Terminals, a big container-handling facility in Rotterdam; Martinaire, the Dutch charter airline; and Smit Internationale, the maritime services company.

"They've sold some already but they're still involved in such a broad range of businesses," Mr. Brakenhoff says. "I don't think we've seen the end of the divestment process yet."

But Mr. Berendsen says the company's balance-sheet strength, bolstered by a Fl1.4bn debt refinancing in 1994, means it no longer has the sort of difficulty that occurred in 1993. "We do not have to divest businesses, or to consider divesting businesses, for financial reasons."

CCF future in doubt as merger plans dropped

By Andrew Jack in Paris

Credit Foncier de France, the specialist banking group, yesterday withdrew its proposal to merge with an associated company, in an important and unusual victory for the country's minority shareholders.

CCF's board voted yesterday morning to cancel plans for a merger with Societe des Immeubles de France, its 65 per cent-controlled property subsidiary. The other investors opposed the deal's terms.

The decision marks a significant step forward in the battle by minority shareholders in France to assert their rights.

after many failures to bring about change in other such cases.

However, it throws into doubt the future financial stability of CCF, which has had difficulties during the current property crisis and would have been able to boost its balance sheet by FF1bn (\$200m) if the merger had gone ahead.

The action also raises questions about the existing legislation for mergers and the way it was scrutinised by the Commission des Operations de Bourse, the French markets regulator, which had already approved the merger.

Ms Colette Neuville, who led

the shareholder rebellion on behalf of a number of French and foreign financial institutions representing 15 per cent of the votes, said: "This decision shows that little by little we are moving from a dirigiste system to a capitalist one."

CCF's decision to cancel the merger was triggered by last Thursday's surprise ruling from the Conseil des Bourses de Valeurs, which oversees market operations on the French bourse, that it would have consequences for minority investors which could breach its regulations in an extremely rare judgment, members of the Conseil

expressed concerns about the proposed merger, because it involved two companies in significantly different business areas, which were governed by different legal statutes.

Immeubles de France is an ordinary private sector company, but CCF, in which minority shareholders would have become investors, is a specialist financial institution under French law, the "governor" or chairman of which is appointed by the President. Minority shareholders would have lost power, and were not being offered a cash alternative to CCF shares if they wanted out.

The shareholders also argued that the terms of the offer - seven CCF shares for every three of their existing ones - offered an exceptional discount to what they believed the company was worth. CCF decided to withdraw its offer rather than propose the alternative of a public buy-back, which it believed would have been too costly on the terms demanded by shareholders.

Some market officials said the decision was embarrassing for the COB, although others argued that it has no rights to intervene in the circumstances under the existing law.

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AMENDMENT NOTICE

Amendment to the advertisement published on 2.12.95
SOCIETE CONCESSIONNAIRE FRANCAISE POUR LA CONSTRUCTION ET L'EXPLOITATION DU TUNNEL ROUTIER SOUTS LE MONT-BLANC
FRF 450,000,000 FLOATING RATE NOTES 1997-1997

The first line in the 23 should read - on February 29, 1996 interest of FRF 142.14 per FRF 10,000 nominal amount of the notes, - instead of FRF 142.10.

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Issued under the Leasehold Stock Exchange

Bankers Trust Company, London Agents Bank

Sumitomo Trust & Banking Co., Ltd.

Financial Results as of 30th September 1995

	Millions of Yen 6 months ended 30th September 1995	Millions of Yen Year ended 31st March 1995	Millions of Yen Year ended 31st March 1994
Income before income taxes	111,649	18,024	712,627
Net income	6,501	7,866	12,508
Total Assets in Banking Accounts	15,663,927	15,181,484	15,572,146
Total Assets in Trust Accounts	33,442,756	34,756,862	32,830,617
Dividend	14.00 per share	14.25 per share	18.25 per share

The Interim Report for 6 months ended 30th September 1995 will be available upon request from January 1996. Please direct enquiries to the address below.

The General Affairs Dept. The Sumitomo Trust & Banking Co., Ltd.
London Branch
155 Bishopsgate, London EC2M 3XU
Telephone: 0171-945-7000 Fax: 0171-945-7177

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European Company for the Finance of Real Estate

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For the interest period 4th December, 1995 to 4th March, 1996 the Notes will carry an Interest Rate of 5.375% per annum with Coupon Amounts of U.S. \$10.59, U.S. \$108.88 and U.S. \$13.8661 per U.S. \$1,000, U.S. \$10,000 and U.S. \$1,000,000 Notes respectively. The relevant Interest Payment Date will be 4th March, 1996.

Swiss Bank Corporation

COMPANY NOTICES

BEVERARDS BREWERY LIMITED

NOTICE is hereby given that the transfer books and register of the 5% Cumulative Preference Shares of the above-named Company will be closed on the 19th December 1995, to facilitate the preparation of the statement of the half-yearly dividend on the 14th December 1995.

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M. J. NEWMAN
FINANCIAL DIRECTOR & COMPANY SECRETARY

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(Mutual fund organized under the laws of the Grand Duchy of Luxembourg)

NOTICE OF DIVIDEND ON TYPE "A" SHARES

Pursuant to article 17 of the management regulations of the Fund, the board of directors of World Bond Trust Management Company, on November 17, 1995, decided to distribute, for the fiscal year ended on September 30, 1995, a dividend to be paid out of the net distributable income of the Fund (which comprises the net investment income of the Fund and the net investment income prorated on the net issues and repurchases of the Fund shares during the accounting year of the Fund).

This dividend, of USD 1.33 per type "A" share of the Fund, will be paid, on and after December 13, 1995, to holders of type "A" shares of the Fund issued and outstanding as of zero hour (Luxembourg time) on December 5, 1995, which constitutes ex-dividend and record date.

This dividend will be paid:

- to holders of type "A" shares in registered form and to holders of confirmations of type "A" shares not physically created, through the principal paying agent, by transfer or cheque pursuant to the instructions given to him by holders of such certificates or confirmations, and
- to holders of type "A" shares to bearer, against coupon no 14.

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WHELOCK AND COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)



INTERIM RESULTS FOR THE HALF-YEAR PERIOD ENDED 30TH SEPTEMBER, 1995

- Profit attributable to Shareholders up 42.2 per cent to HK\$1,511.8 million.
- Interim dividend of 11.5 cents per share, an increase of 9.5 per cent.
- A net debt/total asset ratio of 4.9 per cent is maintained.
- Wharf's quality recurrent earnings continue to underpin Wheelock's value. Construction of Gateway II is underway, and the project will add 2.7 million square feet to the portfolio. New T&T, Wharf's new fixed line telecoms operator, is now active after its recent official launch. Wharf Cable continues to make progress.
- New Asia Realty and Trust now provides strategic focus for the Southeast Asian region for Wheelock Properties. Steady sales of Hong Kong development projects were maintained.
- Wheelock Pacific's joint-ventures are on course as planned. Wheelock NatWest became fully operational in October. In Tianjin, Foster's commissioned its rehabilitated brewery and the new "Largo" brand is selling well.
- Lane Crawford's new merchandising and presentation strategy is enhancing customer support.

SUMMARY OF UNAUDITED CONSOLIDATED RESULTS

Six months ended 30th September:

	1995 HK\$ Million	1994 HK\$ Million
Turnover	1,122.7	1,072.3
Operating profit	126.0	60.7
Exceptional items	24.8	79.2
Profit from ordinary activities	150.8	139.9
Share of profits less losses of associated companies	1,522.5	1,074.1
Profit before taxation	1,673.3	1,214.0
Taxation	(153.7)	(135.7)
Profit after taxation	1,519.6	1,078.3
Minority interests	(7.8)	(15.4)
Group profit attributable to Shareholders	1,511.8	1,062.9
Interim dividend	(231.8)	(211.9)
Transferred to revenue reserves	1,280.0	851.0
Earnings per share	75.0 cents	52.6 cents
Interim dividend per share	11.5 cents	10.5 cents

INTERNATIONAL COMPANIES AND FINANCE

ASIA-PACIFIC NEWS DIGEST

Toshiba to invest Y130bn in chip plant

Toshiba, one of Japan's leading semiconductor manufacturers, is to invest Y130bn (\$1.28bn) over three years in a new manufacturing facility in northern Japan. The facility, due to go on stream by the spring of 1998, is the third significant investment in semiconductors Toshiba has announced recently, and demonstrates that semiconductor makers are confident demand for their products will grow.

Earlier this year, Toshiba announced a joint venture facility with IBM to produce advanced generation memory chips in the US, and another investment in a production facility in central Japan. Its total capital investment in semiconductors this fiscal year will reach Y160bn. Other Japanese semiconductor makers, such as Fujitsu and Hitachi, have also announced investments.

Toshiba's new facility will make highly integrated system chips, which combine memories and logic circuitry on a single chip. These chips are customised products which Toshiba expects will be in growing demand for high technology electronics. Memories and logic ICs will also be produced at the new plant. Production capacity will be 30,000 wafers a month.

Michiko Nakamoto, Tokyo

SA Pepsi distributor expands

New Age Beverages, the South African distributor of Pepsi Cola, is to create the largest soft drinks plant in Southern Africa through a three-fold increase in capital investment.

Existing investors were joined by two of the country's largest trade unions and Standard Corporate and Merchant Bank in committing R200m to develop three new production lines at its plants in Johannesburg and Durban.

The initiative, announced on the first anniversary of Pepsi's return to South Africa, brings total investment to R305m. It quadruples bottling capacity and allows wider distribution of Pepsi products into areas neglected by rival Coca-Cola.

Mr Monwabisi Fandeso, president and chief operating officer, said the company had achieved its fourth year production target within 12 months. He would not disclose Pepsi's market share, nor production capacity. Pepsi Cola International had invested a further R55m to retain its 25 per cent share in New Age Beverages.

Mark Ashurst

Air NZ to 'ring-fence' Ansett

Air New Zealand will "ring-fence" the operations of Ansett, its main rival on New Zealand domestic routes, if it is allowed to buy a half share in the Australian airline. Air NZ has agreed to buy Australian transport group TNT's 50 per cent stake in Ansett for NZ\$450m (US\$302m), but the deal must be approved by regulators in Australia and New Zealand.

One of the main obstacles is the future of Ansett New Zealand. Air NZ's only significant competitor within New Zealand, Ansett New Zealand, has lost NZ\$280m since it was set up by Sir Peter Abeles in 1988, but recently moved into profit. The New Zealand government would face an outcry if Ansett New Zealand were to merge with Air NZ - or if it were closed.

In a submission to the Commerce Commission, Air NZ said it would ensure all Ansett New Zealand directors were appointed by non-Air NZ shareholders. It would also guarantee that no Air NZ staff were involved in the management or direction of the business, nor would they receive confidential information about the company.

Terry Hall, Wellington

Amcor sells John Sands unit

Amcor, the Australian paper and packaging group, is selling its John Sands greeting card business to the US-based American Greeting Corporation, the biggest publicly-owned greeting cards manufacturer. Amcor did not disclose a price for the cash deal which is still subject to final due diligence and various regulatory approvals, but sales at John Sands are around A\$130m a year.

Nikki Tait

Daewoo Motor to break even

Daewoo Motor, a unit of South Korea's Daewoo Group, expects to break even this year, after posting a loss of Won9.08bn (\$11.8m) in 1994. "This year's business improved due to our drive to sell cars overseas," Daewoo said.

It added that sales would rise to Won3,500bn this year, compared with Won2,780bn in 1994. The company also predicted a sharp rise in exports which it said would reach 270,000 units this year, up sharply from 102,000 in 1994. Domestic sales, however, are estimated to decline to 190,000, compared with 249,000 a year before.

Reuters, Seoul

NAB staying on the takeover trail

The bank now has a US foothold for expansion, reports Nikki Tait

National Australia Bank, the largest and strongest of the country's four national banks, has finally hung out the stars and stripes. The Melbourne-based institution last month completed its US\$1.55bn acquisition of Michigan National, a Detroit-based regional bank, ending a six-year search for a US foothold.

But long before the champagne corks popped, the pressures on NAB had begun to mount again. Concentration in the US commercial banking market has continued apace since the Michigan National deal was announced in February - even encroaching on to NAB's new Michigan doorstep, via the merger between First Chicago Corp and Detroit-based NBD Bancorp.

As a result, there has been speculation that the Australian institution, which has consistently said Michigan National will be a base for further forays in to the US market, will need to accelerate the acquisition timetable.

Some analysts are also worried that the bank may have paid generously for its first deal, and could find it difficult to extract the necessary operating efficiencies. Others, however, point out that there have been signs of progress on this front and the situation is looking brighter.

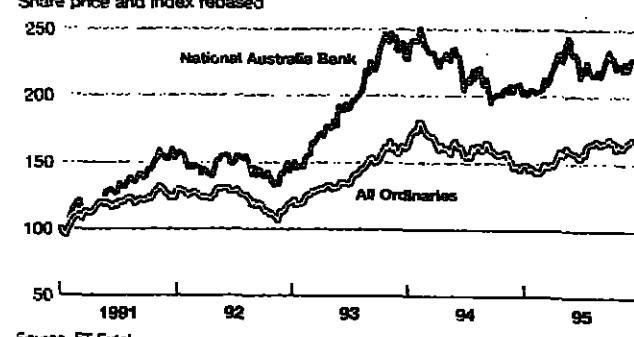
Either way, these arguments leave Mr Don Argus, NAB's forthright chief, unimpressed.

"Well, we waited six years for this acquisition," he says, "and you get to see the peaks and the troughs in the market. There's a lot of activity at the moment, but you can make some big mistakes if you don't go about acquisitions in a sensible way."

While Mr Argus concedes

National Australia Bank

Share price and index rebased



Source: FT Intel

that Michigan National was a "beachhead," he says the timing of the next deal would depend entirely "on opportunity and price."

"The opportunity might arise but you might think it's a bit of a clever price. One of the constraints is that shareholders don't like diluting earnings per share."

NAB estimated in February that the Michigan deal would have a "negligible" impact on earnings per share in the short-term.

Some industry-watchers agree it may be over-simplistic to draw implications from recent big US banking mergers for NAB's strategy, which will be aimed at the middle market.

"There's a question over whether NAB can build a successful consumer-oriented operation in the US, but I would draw a distinction with what's been happening at the top end of the market. The pressure will come, but it's not as immediate as it seems," says one analyst at ANZ McCaughan.

That said, most industry-watchers will be interested to see how the bank balances expansion in the US with

Macquarie Bank 'on course' for share flotation

By Nikki Tait in Sydney

Macquarie Bank, the only substantial Australian-owned investment bank, said yesterday it was "on course" for a stockmarket flotation in the second half of 1996. The bank also reported a strong rise in mid-term profits.

Mr David Clarke, chairman, said the bank planned to talk to its shareholders - who include around 700 staff and about 100 institutions, led by Hill Samuel of the UK with a 14.1 per cent stake - in February.

Macquarie does not require any new capital, so the flotation shares are likely to be provided by existing holders. The bank would then come to the market after the company's annual meeting in July, by which time its full-year profits for the year to end-March would be known.

Mr Clarke admitted that the multi-billion dollar sale of the federal government's 51 per cent stake in Commonwealth Bank of Australia could be a complication.

No timetable for the CBA sale has been fixed, but it will take place after the federal election, due in early 1996.

Macquarie's interim profit after tax of A\$38m (US\$38m), up 14.3 per cent from the same period in 1994, while earnings per share increased to 26.4 cents, against 24.7 cents a year ago. Total group assets in the six months to end-September increased by 21.2 per cent, to A\$5.6bn, from the end-March figure.

Interest revenue for the period rose modestly from A\$150.5m a year ago to A\$157.1m, while "other" operating income jumped more substantially from A\$163.6m to A\$220.8m.

However, operating expenses also rose significantly, from A\$144.6m to A\$199.3m, leaving pre-tax profits at A\$39.2m, compared with A\$94.5m previously.

Macquarie said conditions in the "trading markets" had been difficult. Mr Allan Moss, managing director, said stock-market volatility had been in a four-year low, and trading levels subdued.

The corporate finance and corporate banking groups recorded "very high transaction levels and achieved strong results". They benefited from fairly high levels of corporate activity, growth in infrastructure financing, and corporate work generated by the privatisation of public sector assets.

Looking to the second half, Mr Allan Moss said the group was "optimistic".

Rembrandt Group, the tobacco-based conglomerate controlled by South Africa's Rupert family, is raising its dividend after attributable income increased 75 per cent to R673m (\$183.6m) in the six months to September 30, from R385m a year earlier.

But Mr Johann Rupert, chairman, warned the improvement was due largely to exceptional losses of R123m last year, mainly due to difficulties at associate Goldfields, the gold mining house.

Such items were "were not a fair indication of the growth in sustainable earnings", he said.

The group's earnings per share after exceptional items rose to 128.9 cents from 73.6 cents, while earnings before exceptional items were 128 cents, against 97.3 cents. The interim dividend is being lifted to 24.5 cents from 18.6 cents.

Rembrandt's increased stake in Metkor Group, the South African steel and engineering company, boosted its turnover to R4.6bn from R2.5bn, including net sales, excise duty, fees,

rental and investment income.

These were the first results to consolidate returns from Metkor Group and its units since Rembrandt exercised a pre-emptive right to acquire Metkor as a subsidiary on April 1.

Rembrandt's stake in Metkor had increased from 25.3 per cent to 75.7 per cent, requiring additional investment of R101m. Interest bearing debt rose 17 per cent to R1.1bn, of which R763m was long-term.

Excluding Metkor's contribution, group sales increased 12.9 per cent. Operating income before interest and depreciation was up 40.3 per cent at R494m. Excluding income of associated companies not received as dividends, earnings rose 21 per cent to 93.3 cents per share, against 81 cents.

The company has about 60 per cent of the local tobacco market.

The results were released in tandem with confirmation that Rembrandt would merge its tobacco interests with those of Swiss-based holding company Richemont, also controlled by the Rupert family, to form an enlarged Rothmans International Group.

Asked whether this might involve building operations targeted at niche markets, Mr Argus replied: "We wouldn't walk away from an acquisition if one became available." He notes that the company is looking beyond the banking sector per se, to mutuals and the like.

Finally, there is still the question of what moves NAB might make to cement its role in the Australia. The domestic banking sector in the throes of a shake-out, with Westpac buying Perth-based Challenge Bank, Bank of Scotland acquiring BankWest, and Advance Bank snaring BankSA.

However, a recent ruling by the Trade Practices Commission, Australia's competition watchdog, appeared to require the presence of at least one regional banking competitor, as well as the four national banks, in each state.

If the TPC's rule sticks, the acquisition possibilities for NAB are limited. But in New South Wales the establishment of a "super-regional" bank, via the Advance-BankSA deal, could make Sydney-based St George Bank a possible target. Speculation that NAB might be interested has already run through the market.

Mr Argus doesn't bat an eyelid: "There's things you can do in Australia and things you can't. But we certainly have an interest in the rationalisation process."

This announcement appears as a matter of record only

November 1995

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The Coupon Amount payable on the relevant Interest Payment Date, June 05, 1996 will be US\$ 232.05 per US\$ 10,000 principal amount of Note and US\$ 2,920.53 per US\$ 100,000 principal amount of Note.

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COMPANY NEWS: UK

Courage adds growth and balance to brewing activities

Acquisition boosts S&N

By Roderick Oram,
Consumer Industries Editor

Courage lifted its beer sales 7.5 per cent in the six months to October 29, outperforming the market and the existing brewing business of Scottish & Newcastle, its new owner.

"We picked up a business on the front foot," said Mr Brian Stewart, S&N's chief executive as he reported a rise in S&N's interim pre-tax profits to £154.5m (£145.1m) after a £3.7m (£200,000) charge for reorganisation and loss on disposal of fixed assets.

S&N said it would take a charge in the year ending April of about £50m for integrating Courage into the group and a further charge of £70m in asset write-downs. The process was well advanced and annual savings would be about £75m a year when integration was completed in the financial year ending April 1996.

The cost savings were nearly double the estimate S&N made when it paid Foster's Brewing Group of Australia £430m for Courage earlier this year.

Much of the savings, at the top end of analysts' forecasts, are expected to flow through to S&N's profits. Unlike spirits producers which are recycling savings into more advertising, Courage's advertising spending as a percentage of sales is already one of the highest in the industry and roughly double S&N's rate.

S&N has already created organisations for the expanded brewing business for on-trade, national accounts, off-trade, international and head office. This was achieved with no loss of business to competitors, Mr Stewart said. Integration will move upstream into brewing and distribution. The group said it was still studying its



Brian Stewart with Mark Chiaruttini, head chef at The Maple Leaf pub in London

options but would give details in January.

Courage's strong sales compared with a rise of about 4.4 per cent in the beer market of the Midlands and southern England. S&N's existing business, heavily tilted towards northern England and Scotland, lifted beer sales by 1 per cent in line with northern markets.

The Courage acquisition

brought better geographic balance to S&N's beer business. Mr Stewart said. On sales of £298.9m, Courage contributed £5m to S&N's operating profits from 11 weeks of post-takeover trading. The existing brewing business contributed £44.8m, down 1.3 per cent, on sales of £459.1m, up 3 per cent.

S&N's pub division reported a 9.7 per cent increase in operating profits to £20.4m on sales

up 2 per cent at £371.7m. The growth came from its managed houses where profits rose 14 per cent to £67.4m.

The leisure division reported a 4 per cent rise in profits to £50.8m. Pontins was well ahead. Center Parcs lifted profits 4 per cent but was held back by competition from other forms of short-break holidays and start-up costs of a new facility in Germany.

Vodka funds sought by Smirnoff family

By Roderick Oram,
Consumer Industries Editor

Descendants of Peter Smirnoff, supplier of vodka to the last Czar, will this week seek to enlist financial and technical help from the international spirits industry to resume large-scale vodka production in Russia.

They will send their offer to establish a Russian joint venture to about nine foreign distillers, convinced they have the legal right to the Smirnoff name and trademark.

The initiative is the latest chapter in a four-year conflict between the group of Smirnoff descendants and Grand Metropolitan, the UK drinks and food group. Smirnoff vodka is one of GrandMet's largest and most profitable brands.

The group, led by Mr Boris Smirnoff, a former KGB officer and a great grandson of Peter, has won several legal victories against GrandMet in the Russian Patent Office and a court in southern Russia, where the descendants have some small-scale vodka production.

GrandMet says it has the support of another, larger

group of descendants who dispute Boris's claim. The UK group remains convinced it has proper title to the name and trademark and that it will prevail in higher courts.

Mr William Walker, a US lawyer leading the Boris Smirnoff group's legal fight and search for an investor, said: "We are offering international distillers the opportunity to participate with us in producing vodka in Russia, potentially the largest and one of the fastest growing markets in the world."

"Western markets are in long-term decline but Russia holds tremendous opportunity."

The dispute stems from the 1993 purchase by Heublein, a US company subsequently acquired by GrandMet, of the rights to the Smirnoff name.

Court proceedings continue this week in Moscow, where Heublein is appealing against the patent office rulings in favour of Boris's trademark claims, and in Krasnodar, where Heublein is also appealing against a court ruling upholding Boris's claims.

Sale of jewellery activity behind Oriflame's rise

By Motoko Rich

Strong growth in Portugal, Chile and Peru helped Oriflame, the door-to-door cosmetics group, raise interim pre-tax profits 27 per cent from \$6.2m to \$7.9m (\$13m).

In the six months to September 30, the group achieved flat turnover of \$40.5m. Mr Hakan Martensson, finance director, said this was due to the absence of sales from its jewellery division, sold in October 1994.

Direct sales increased by 17 per cent, with sales in Portugal and Chile surging 60 per cent.

The group said focusing on cosmetics had helped margins expand from 15.5 per cent to 19.7 per cent.

Royalty and licence income rose to \$1.31m (£1.03m) and the share in the results of associated companies - mainly Oressa, the group's eastern European operation - increased from \$98,000 to \$1.45m, reflecting stronger growth in

emerging markets. The group takes about 40 per cent of Oressa's profits.

Mr Robert af Jochnick, chief executive, said the group was stepping up its expansion into emerging markets, with plans to open operations in India, Ecuador and Brazil this year. Mr af Jochnick said the group planned to enter three to five new markets within five years.

The group was also looking to build networks in Morocco, Tunisia, Egypt, South Africa and China.

He said the company had already conducted feasibility studies for more than two years in China, which it considered to be the largest potential market.

Mr af Jochnick said the group intended to open operations in China within three years.

Mr Martensson said the group hoped to generate compound annual growth of about 15 to 20 per cent over the next few years.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Acad	6 mths to Sept 30	61.8 (50.3)	4.45 (3.47)	13 (10.5)	Feb 1	2.44	-	7.44
Alfa	6 mths to Sept 30	89.4 (83.5)	2.28 (2.03)	4.27 (3.48)	Apr 28	1.1	-	5.3
Alfa	6 mths to Oct 1	104.1 (97.1)	2.6 (2.4)	7.42 (6.48)	May 25	2	-	5.5
AMS	6 mths to Sept 30	13.5 (8.46)	1.2 (1.07)	5.51 (5.5)	Feb 15	0.75	-	3
Bearing Power	Yr to Sept 30	43.4 (38.7)	0.809 (1.059)	1.4 (2.4)	Mar 1	1	1.25	1
Cable News	6 mths to Sept 30	6.39 (5.5)	0.382 (0.425)	6.14 (7.11)	-	-	-	2
Faber Pen	Yr to Sept 30	38.9 (35.5)	3.19 (3.59)	42.061 (43.74)	Jan 19	10	17	15.5
Gal Group	Yr to Aug 31	35.3 (33.7)	2.51 (2.08)	11.22 (11.1)	Jan 8	3.3	-	-
Hadfield	6 mths to Sept 29	12.8 (15.7)	0.857 (0.324)	6.1 (8)	Jan 11	1	-	3
Harrie (P&O)	6 mths to Sept 30	55.1 (50.2)	1.774 (0.847)	7.14 (5.77)	Jan 28	2.2	-	7.1
Headwood Foods	6 mths to Sept 30	391.8 (423.1)	16.1 (10.7)	5.12 (2.27)	Jan 23	2.4	-	5.7
Oriflame	6 mths to Sept 30	40.52 (40.49)	7.95 (5.3)	11.7 (9.7)	Feb 13	1.8	-	14
Plym	6 mths to Sept 30	63.3 (44.7)	3.1 (2.95)	4.3 (4)	Feb 1	2	-	7
Scottish & Newcastle	6 mths to Oct 29	1,345 (1,071)	154.56 (145.1)	21 (20.1)	Feb 9	6.18	-	18.23
Scottish & Newcastle	6 mths to Sept 30	19.2 (18.2)	0.811 (0.78)	3.2 (2.8)	Jan 31	0.85	-	2.7
Young (H)	Yr to Sept 30	59.7 (42)	2.01 (1.45)	8.6 (5.5)	Jan 19	2.4	3.9	3.6

Courage shown last. Dividends shown next. Figures in brackets are for corresponding period. *After exceptional charge. *After exceptional credit. *10m increased capital. *\$10m stock. *\$10m stock.

Littlewoods may open books to all

By David Blackwell

The 32 family shareholders in Littlewoods, the retail and pools group now facing two offers of more than £1bn (£1.38bn) will on Thursday be asked to open the books to all interested parties.

It is understood that Mr Peter Moores, one of the sons of founder Sir John Moores, will put two new resolutions to the extraordinary general meeting that has been called over the £1.2bn offer from Bidco. That offer is led by Mr Barry Dale, a former chief executive, and shareholders are expected to vote against a single resolution that the books should be opened to him.

Mr Moores is expected to propose that shareholders should consider all bids for the whole company or for substantial parts of it. A further resolution will urge the preparation of a

sales memorandum giving financial disclosure to potential buyers.

There is no indication that the family will find the latest £1.1bn offer led by Sir David Alliance, chairman of N. Brown, the mail order group, in conjunction with Iceland, the frozen food retailer more attractive than the first. While some are anxious to find out how much the group is worth, others believe the time is not ripe for a sale following a warning that this year's profits will be "some way below" last year's modest £116m, on turnover of £2.72bn.

Sir David is offering £850m in cash or shares for the mail order and pools businesses, while Iceland is offering £450m cash for the chain of 128 stores.

The combination of Littlewoods mail order business with N. Brown would create a group with combined turnover of £1.2bn, second only to GUS.

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- With assets of \$2.6 billion and shareholders' funds of \$332 million, Zagrebačka banka is the second largest bank in Croatia.
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- Consistently profitable throughout a period of complex trading conditions.
- The bank has a capital adequacy ratio of 11%, comfortably above the minimum required level of 8%. All non-performing and doubtful assets have been fully provisioned.

Zagrebačka banka's achievements were acknowledged in April by the European Bank for Reconstruction and Development, which granted the bank two loans totalling DM56 million. These were the first credits from the EBRD to a Croatian bank.

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Zagrebačka banka



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مكتبة الامم المتحدة

EXTRA- ORDINARY GENERAL MEETING

TUESDAY, DECEMBER 19, 1995 AT 4:00 PM

As the request of AB Industrivärden (publ), the shareholders of PLM AB (publ) are hereby summoned to an extraordinary general meeting to be held on Tuesday, December 19, 1995 at 4:00 pm at Industrisalen, Industrifuset, Storgatan 19, Stockholm, Sweden.

NOTICE OF INTENTION TO PARTICIPATE

Shareholders who wish to participate in the meeting shall be registered in the list of shareholders maintained by the Swedish Securities Register Centre (VPC) no later than Friday, December 8, 1995. Notice of intention to participate should arrive at the company no later than 3:00 pm on Friday, December 15, 1995.

Notice may be given by mail to PLM AB (publ), Box 836, S-201 80 Malmö, Sweden, by fax +46 40 20 90 45 or by telephone +46 40 20 90 00.

To participate in the meeting, shareholders whose stock has been registered in the name of trustees must arrange for their stock to be re-registered in their own names at VPC no later than Friday, December 8, 1995.

MATTERS TO BE CONSIDERED

- the number of board members and deputy board members
- the election of board members and deputy board members

Shareholders who together represent approximately 70% of the total voting power in the company intend to vote for the re-election of current board members Clas Reuterskiöld, Jan Ekman, Bo Åson Felner, Berthold Lindqvist, Rolf Börjesson and deputy member Carl-Olof By. They also intend to vote for the election to the board of Jan Blomberg, Executive Vice-President of Pharmacia & Upjohn and Håkan Frisinger, Honorary Doctor of Technology.

Malmö, November 29, 1995

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T&N to appeal against asbestos case judgment

By Tim Burt

T&N, formerly Britain's largest asbestos producer, is to seek to overturn a High Court judgment ordering it to compensate two cancer victims who contracted the disease after playing outside one of its UK plants as children.

The company - which as Turner & Newall operated the JW Roberts asbestos factory in Armley, Leeds - said it would appeal against the October ruling, which found T&N liable for exposing nearby residents to potentially lethal doses of asbestos dust.

Lawyers acting for the company urged it to appeal, as failure to do so could prejudice its defence against subsequent personal injury claims.

In a statement to the stock exchange, T&N said Mr Justice Holland had accepted its main arguments: "Namely, that during the time the Armley factory was in operation, prior to 1959, neither T&N nor anyone else knew of the potential risks to health arising from low dose exposure to asbestos dust."

The judge, however, ordered the group to pay total compensation of £115,000 to mesothelioma victim Mrs June Hancock and the widow of Mr Arthur Margerson, who died of the cancer, after deciding that T&N had a duty of care not only to its own workers but also to residents.

While contesting the ruling, the company said it would not try to recover the compensation, which has already been

paid to solicitors acting for Mrs Hancock and Mrs Margerson. Irwin Mitchell, acting for Mrs Hancock, accused T&N of distorting the judgment. Mr Adrian Budgen, the partner handling the case, said Mr Justice Holland had ruled that T&N knew there was no safe level of asbestos exposure.

T&N's appeal comes as a separate legal action against Chase Manhattan Bank moves into its final stages. Chase is seeking some £160m (£117m) in damages over alleged asbestos contamination of its New York headquarters.

Although it expressed confidence in the strength of its case, T&N hinted at an appeal if the jury in the southern district of New York awarded "excessive damages" to Chase.

Cost cutting behind sharp rise at Hazlewood Foods

By Patrick Harverson

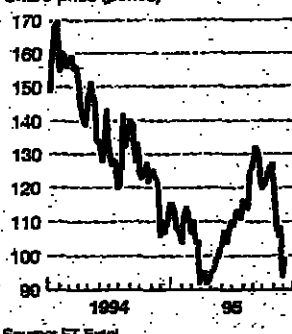
The benefits of its long-running restructuring enabled Hazlewood Foods to report a sharp increase in interim profits yesterday, although the group warned that continued difficult trading conditions would limit growth in the second half.

Pre-tax profits rose from £10.7m to £16.1m (£25m), or £12.1m before exceptional items, in the six months to September 30, growth that was achieved despite what Mr Peter Barr, chairman, called "some of the toughest conditions seen in our industry for a generation."

Hazlewood, like other food groups, has seen its margins squeezed this year between rising raw material costs and a

Hazlewood Foods

Share price (pence)



Source: FT Estimate

competitive consumer market resistant to price increases.

However, profits were up in the latest period because the absence of the modernisation

expenses which restricted profits in the first half last year and the cost-cutting efforts, which boosted operating margins on continuing businesses from 3.8 per cent to 5 per cent. Turnover fell to £391.8m (£428.1m) following the disposal earlier this year of the shellfish division. Excluding discontinued operations, turnover was up 10.4 per cent.

Of Hazlewood's four remaining divisions, convenience and ready meals saw profits jump to £8.5m (£4.9m) thanks to a strong performance on the continent.

Harvest foods saw profits double to £5.2m (£2.5m) as potatoes recovered from last year's dreadful showing and tomatoes benefited from the hot summer.

Nissho denies Amec bid moves

Nissho Iwai, the Japanese trading house, denied yesterday it was seeking to frustrate a £360m (£570m) hostile bid for Amec, the construction and engineering company, in which the Japanese group took a small stake on Friday, write Andrew Taylor and Emiko Terazono.

Kvaerner, the Norwegian shipbuilding and engineering company, is bidding 100p for each Amec ordinary share, valuing the ordinary capital at £202m. It yesterday made an offer worth £158.7m to holders of 172m Amec preference shares.

LEX COMMENT Swalec bid

Swalec's agreement to Welsh Water's bid brings an unexpected end to hostilities between the two companies.

In truth, Welsh is offering such a generous price that even Swalec had to accept. Welsh's offer - £9.30 a share in cash plus Swalec's share of the National Grid - is 75 per cent above Swalec's share price in April. Unless it can do spectacularly well at cutting costs from merging the two businesses, Welsh is overpaying. Welsh claims it will do sufficiently well that the deal will be earnings-enhancing, even by comparison with buying back its own shares. But this ignores the fact that many of the cost savings could have been achieved through a joint venture. And the deal is a much riskier way to enhance earnings than a share buy-back.

The main danger is that Welsh's management has bitten off more than it can chew. Suddenly it is in charge of a multi-competence - encompassing not only electricity and water, but also gas supply, power generation, cable television, road design and contracting. Combining the electricity and water supply businesses will be a huge project: the computer systems, for instance, are incompatible.

Welsh has not only to deliver savings but also to deliver them on time. Shareholders will benefit only until the regulator transfers the savings to customers following his next regulatory review. Since Welsh refuses to say how much it hopes to cut, let alone when, shareholders are being asked to take a great deal on trust.

Welsh Water wins Swalec bid battle

By Peggy Hollinger

Welsh Water has won South Wales Electricity with an 11th-hour bid which values the power company at about £872m (£1.38bn).

The recommended bid is the second offer by a water company for an electricity group following North West Water's £1.1bn takeover of Norweb last month.

The 940p cash and share offer is among the more generous bids seen so far in the electricity sector. Mr Iain Evans, Welsh Water chairman, acknowledged his company was paying a "full price for Swalec".

However, he was confident the combination would provide significant benefits to both companies' shareholders.

The two companies reached agreement in the early hours of yesterday morning after weeks of wrangling over price. On Thursday, Swalec had rejected Welsh Water's final informal offer of 918p in cash and shares, or £361m. Welsh Water, which has nursed ambitions to take over Swalec since 1991, had planned to launch a hostile bid yesterday at that level if it could not get the target's recommendation.

In the end, Welsh Water nudged up the offer price to 940p in cash and shares - one new water share and £40.25 cash for every five of Swalec's - or a cash bid of £30p. To investors eligible for tax credits, the deal values Swalec shares at 965p. The offer excludes the 194p net value of the National Grid.

RICHEMONT

RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1995

The Board of Directors of Compagnie Financière Richemont AG is pleased to announce further progress in terms of sales and profitability in the six month period ended 30 September 1995.

- Profit attributable to unitholders and earnings per unit, excluding the effects of goodwill amortisation, increased by 31.6 per cent to £152.4 million and £26.54, respectively.

- These improved results reflect continued growth in the Group's core tobacco and luxury goods businesses. Operating profit from the Group's tobacco interests, which are held through Rothmans International, increased by 3.9 per cent to £264.1 million. Vendôme Luxury Group, the vehicle for Richemont's luxury goods interests, reported operating profit of £113.3 million, which represented an improvement of 15.4 per cent against the first half of last year. The Group's share of operating losses from its media interests, which are held through Nerthold BV, was slightly lower than last year at £14.9 million.

Richemont's accounting policy of amortising goodwill through the consolidated profit and loss account resulted in a significant additional amortisation charge in the period under review. This arose largely in consequence of the amortisation of the goodwill of £1,235 million which resulted from the buy-out of the minority shareholders in Rothmans International in July 1995. On a reported basis, therefore, profit attributable to unitholders and earnings per unit increased by 15.5 per cent to £130.3 million and £22.69, respectively.

Copies of the interim report of Richemont may be obtained from:
Compagnie Financière Richemont AG Rigmistrasse 2 6300 Zug Switzerland
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Nickel prices forecast to settle at lower level

By Kenneth Gooding, Mining Correspondent, in Kalgoorlie

Nickel prices will not average US\$4 a pound in future as they have for the past 25 years, said Mr Mark Cufamani, operations manager, nickel, for Western Mining Corporation, Australia's biggest producer of the metal, yesterday.

At the same time, producers

are relentlessly driving down costs. They have dropped by a steady annual 1.5 to 2 per cent in the past, "and I see no reason why this should not continue", he said at the Australian Nickel Conference.

The outlook for nickel demand was positive, said Mr Cufamani, and annual growth for both nickel and stainless steel, which absorbs about 70

per cent of nickel production, would continue at 3.5 per cent.

However, although that represented an extra 30,000 tonnes a year, WMC could identify 72,000 tonnes of existing spare capacity, which would take care of two years' growth, while projects already committed would add another 78,000 tonnes. On top of that there were other projects totalling

315,000 tonnes of capacity "being talked about".

Prices in future would average between \$3 and \$4 a pound, he suggested, and the peaks and troughs would be shallower. "Anyone expecting nickel to average \$4 a pound will be disappointed." But cash production costs were coming down. A recent study by consultants Brook

Hunt forecast that the industry's costs would fall between 1995 and 2005 from \$2 to \$1.75 pound but Mr Cufamani suggested that probably did not take account of the impact on the industry's average of the Voisey Bay project in Canada, a huge and very low cost project scheduled to come into production early next decade. Stainless steel prices had

also been falling steadily, making it more competitive against other construction materials. That helped to explain the extremely strong rate of demand growth in recent years. As nickel accounts for about 25 per cent of the cost of producing stainless, low nickel prices would help ensure that demand for that type of steel continued to grow.

Significant gas find made in Bangladesh

By Mark Nicholson in Dhaka

Bangladesh's state-owned energy company has made a "very significant" gas discovery in the south islands on the tip of the Bay of Bengal, the first gas find in the area.

The find, by Baper, a subsidiary of Petrobangla, the state energy group, at Bhola, will increase by at least 10 per cent the country's known reserves of 10,000m standard cubic feet, according to Mr Khondaker Mosharraf Hossain, minister of energy and mineral resources. It will become Bangladesh's 18th commercial gasfield and has increased official optimism over the future of the country's only big energy resource. "We are very hopeful the discovery at Bhola will be the first of a series," said Mr Hossain.

The Bhola find, the fruit of a single exploratory well, is the first commercial deposit to be discovered in the country's central southern region. The country's other gasfields lie along the eastern border.

Hopes of further finds rest on the optimism of foreign oil and gas companies, which are beginning to return to Bangladesh after a two-decade absence. As part of its liberalising reforms, and in a drive to meet a near eight-fold rise in expected domestic gas demand to 5.5 m cu ft a day by 2020, the government in 1988 offered several of the country's 25 blocks for production sharing.

Agreements have been signed with three groups covering seven blocks, onshore and off. Occidental of the US (with three blocks) and Cairns Energy & Holland Sea Search, a UK-Netherlands combine (also with two) are both preparing to start exploratory drilling. CEASIS is towing an offshore rig into the Bay of Bengal to begin drilling within the next few weeks.

Bangladesh has also initiated an agreement with Rexwood Okland of the US for further two blocks. The three foreign groups have committed a total of \$8.5m for a seven-year exploration programme.

Mr Hossain said bidding documents were being prepared for the offer of 16 further blocks early next year. He said the government was already in talks with several international energy companies, including Shell.

The Bangladesh government has in the past two years reformulated terms and pricing for production sharing agreements, estimating that the sector will require \$3.7m worth of fresh investment in exploration to meet demand by 2020. Demand for gas is expected to outstrip present supplies of 750,000 cu ft a day by at least 250,000 cu ft a day by 2000.

Gas exploration has remained a state preserve since 1976, when half a dozen international companies prospecting in the Bay of Bengal wound up operations, disillusioned with poor incentives and political uncertainty.

"We were suffering from an image problem," said Mr Hossain. "Now that companies such as Occidental have come in, the ice has been broken. Many of the big names in oil and gas are now becoming interested."

The government has speeded investment approvals, allowed full repatriation of profits, abolished administration and signing fees for gas concessions and also duties on imports of exploration equipment. The government says it will ensure domestic commercial outlets for commercial gas fields within 12 months, thereafter allowing developers to find their own.

Associated gas is priced on a cost-plus basis under the government's reformed policies, while onshore non-associated gas is priced at 75 per cent of world prices for high sulphur heavy fuel oil. Offshore non-associated gas is priced at a 25 per cent premium over onshore.

Some 43 per cent of Bangladesh's gas feeds the country's power stations, 88 per cent of which are gas-fired, with 34 per cent used as feedstock to the domestic fertilizer industry.

Bigger Chinese cotton crop estimated

By Laurie Morse in Chicago

The Washington-based International Cotton Advisory Council has increased its estimate of this season's cotton production in China, and made corresponding cuts to China's projected cotton import requirements. The council has also lowered its predictions for average cotton prices for the next two seasons.

The ICAC, which represents 42 cotton producing or trading countries, said it had increased its world cotton production estimate for the 1995-96 season to 19.6m tonnes because of improving prospects in China, and forecast world production at 20m tonnes for the 1996-97 production year because of further expected planting gains linked to above-average prices.

For China, the ICAC estimates 1995-96 cotton production at 4.35m tonnes, up from its October estimate of 3.85m tonnes. As a result it cut its forecast for China's cotton import needs by 100,000 tonnes to 500,000 tonnes, this year, and said China's cotton imports would fall to 300,000 tonnes in 1996-97. By the end of the 1996-97 marketing year, the ICAC said, it expected world cotton stocks to rise to 8.38m tonnes, from 8.02m this year. As a result, the average Cotlook A price index was forecast by the ICAC secretariat to decline to 83 cents a pound in 1996, from 94 cents this year and to 72 cents in 1997.

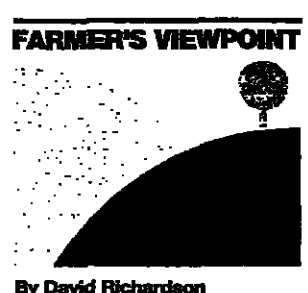
EU still on horns of beef hormone dilemma

Scientists have vindicated the growth promoters but consumer resistance remains

There never was any scientific justification for banning, throughout the European Union, the use of a group of approved growth-promoting hormones for beef cattle. The ban was imposed for political and economic purposes. At the time - ten years ago - the EU had a "beef mountain" held in expensive cold stores and consumer pressure to outlaw products perceived as possible health hazards was intense. A scientific study requested and funded by the European Commission, was not even considered.

Last week, at a conference in Brussels to review the current situation, the 10-year-old scientific study was finally accepted and vindicated. The scientist who had supervised it, Professor Eric Lamming, a livestock specialist at the University of Nottingham, is delighted. But that does not mean beef hormones will automatically become acceptable again, nor is it the end of the affair.

Farmers used the products in the first place to enhance growth rates and to produce carcasses that contained a higher proportion of lean meat. Not only were the animals potentially more profitable it was argued, but the meat, with its lower cholesterol content, was also more healthy to eat. Much of the antagonism to the concept of using hormones was based on the irresponsible use, especially in Italy in the 1970s, of derivatives of stil-



By David Richardson

benes and thyrostatic substances. In one well publicised and presumably substantially accurate case such a product was said to have been injected into the rump of a veal calf shortly before slaughter. It was, therefore, concentrated into a small quantity of meat which was subsequently eaten by a boy who was later reported to have begun to have developed breasts.

Horror stories such as that were bound to create aversion to beef hormones. In normal approved practice, however, synthetic or natural tested and approved hormones were contained in slow release capsules and inserted into an animal's ear. The ears were discarded at slaughter and in any case there was a specified withdrawal period after insertion before which the animal could not be slaughtered.

Many things have changed since the 1986 ban. For instance, there is no longer a beef mountain in the EU.

According to the latest information on so-called "intervention stocks", that is surplus beef bought by the EU to support the market price the union's total stock of beef this autumn is a mere 12,000 tonnes. Of greater significance, the EU has also signed the Uruguay Round settlement of General Agreement on Tariffs and Trade.

The implications of that accord were the main motivation behind last week's conference. Selected growth-promoting hormones are in common use by beef producers in many of the signatory countries to the agreement, especially the US. The ban on their use in the EU has, of course, been accompanied by a ban on imports into the union of beef treated with them. This, say US officials, has cost them an estimated \$100m a year in lost exports and amount to an unjustified barrier to trade.

Furthermore, the US has threatened, if the ban is not lifted by the end of this year, to take the matter to the World Trade Organisation, which oversees the freer trading terms of the Gatt settlement, for adjudication.

Clearly, following last week's acceptance of the scientific vindication of hormones as legitimate and safe it is likely that, should the EU try to maintain its position of banning imports of beef treated with hormones it would lose the case. Never-

theless, as was emphasised at the Brussels conference, consumer concern across the EU continues and this cannot be ignored.

Significantly, many farmers are also now against the reintroduction of beef hormones. For even though some may have happily used them previously to the EU ban they now see two main objections. One is that legalisation would, under the terms of Gatt, immediately enable cheap American and other beef to enter the EU and undermine their prices. The other is the realisation that if beef sales are to be maintained, consumer demands must be recognised and responded to - and at present the beef business has more than enough problems with "mad cow disease" without adding another possible disincentive to buy.

The fact that hormones have now been officially judged safe will not convert most consumers to trust them overnight. Like radiation and bovine spongiform, the milk yield-boosting product for dairy cows, which is also being used in many other countries, including the US, the word beef hormone has registered with many as undesirable and that will be difficult and slow to change.

Nevertheless, having been challenged by the US and having finally accepted the scientific evidence, the EU will have to do something. Union officials are also acutely aware

that during the period of the hormone ban a black market, often involving sub-standard and possibly genuinely dangerous hormone substitutes, has built up in some countries. The American prohibition of the worldwide drugs trade has led to uncontrolled use, crime and occasionally violence which really are a threat to health.

Mr Franz Fischler, the EU agriculture commissioner, said at the conference last week that he hoped to find a "middle way" through the problem. What this means is not entirely clear but could be interpreted as bowing to the inevitable and permitting US and other imports but insisting that it be labelled. That way European consumers would be able to exercise choice and demonstrate whether or not they were ready for hormones.

Meanwhile, should EU farmers once more be allowed to use them? For if the ban on their use were to continue in the union its farmers would surely be unfairly disadvantaged. Perhaps the answer lies in a slow transition allowing EU public opinion to adjust to the concept that hormones are all right after all and for new, even safer growth promoting products now in development, to be launched. But does Mr Fischler have that much time?

Moreover, does he have the wisdom of Solomon? For he will certainly need to sort out this problem.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amsterdam Metal Trading)

ALUMINIUM, 99.99% (5 tonne)

	Close	1650.5-51.5	1650.00
Previous	1657.8		
High/Low	1657.8	1650.00	1650.00
AM Official	1650.00	1650.00	1650.00
Kerb close	1651.5-1.5	1650.00	1650.00
Open int.	21,282		
Total daily turnover	45,965		

ALUMINIUM ALLOY (5 tonne)

ALUMINIUM ALLOY (\$ per tonne)		
Close	1415.20	1455.58
Previous	1405.15	1455.58
High/Low		1455.58
AM Official	1405.10	1455.58
Kerb close		1455.58

LEAD (5 tonne)

LEAD (\$ per tonne)		
Close	752.5-4.5	724.25
Previous	756.5-8.5	724.25
High/Low	762-758	724.25
AM Official	760-61	724.25
Kerb close		724.25

NICKEL (5 tonne)

Total daily turnover		7800
31 NICKEL (\$ per tonne)		
Close	7890-300	50
Previous	8110-20	83
High/Low		822
AM Official	7975-05	51

TIN (5 tonne)

Total daily turnover	14,675	
■ TIN (\$ per tonne)		
Close	6105.75	6215.70
Previous	6205.25	6215.70
High/Low	6105.75	6215.70
AM Official	6205.10	6215.70

ZINC, special high grade (5 tonne)

Open int.	42,102	
Total daily turnover	32,387	
■ ZINC, special high grade 3 per tonne		
Close	1012.15	1027.38
Previous	1020.75	
High/Low	1012.15	1027.38
AM Official	1017.15	1027.38
Kerb close	1017.15	1027.38
Open int.	42,102	
Total daily turnover	32,387	

COPPER, grade A (5 tonne)

Open int.	62,112	
Total daily turnover	32.18	
■ COPPER, grade A (5 Der Penny)		
Close	2952.51	27
Previous	2957.67	27
High/Low	2985-2922	27

LME ALUMINUM OFFICIAL C/S RATE: 1.5300

LME CLOSING C/S RATE: 1.5300

Set: 1.5200-1.5300 (1.5200-1.5300) (1.5200-1.5300)

HIGH GRADE COPPER (C/S RATE)

HIGH GRADE COPPER (COMEX)					
	Sett price	Day's change	High	Low	Vol
Dec	101.85	+0.35	133.00	131.70	140

PRECIOUS METALS

LONDON GOLD MARKET

Prices supplied by N M Rothschild

GOLD (1000 gms)

PRECIOUS METALS			
IN LONDON BULLION MARKET			
(Prices supplied by N M Rothschild)			
Gold/Troy oz	\$ price	£ equiv	£
Close	256.15-256.50		

SILVER (1000 gms)

Afternoon Ex	335.90	251.597
Day's High	336.25-336.55	
Day's Low	335.40-335.70	
Previous close	336.30-336.50	
Local Loan Mean Gold Lending Rates (%)		
1 month	1.15	6 months

UNLEADED GASOLINE

LME ALUMINUM OFFICIAL C/S RATE: 1.5300

LME CLOSING C/S RATE: 1.5300

Set: 1.5200-1.5300 (1.5200-1.5300) (1.5200-1.5300)

HIGH GRADE COPPER (C/S RATE)

Kruggerand	387-368	25
Maple Leaf	317 05-099.55	
New Sovereign	30-97	5

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

	Set	388.0	387.0	387.0	387.0	387.0
Close	388.0					
Previous	387.0					
High/Low	388.0	387.0	387.0	387.0	387.0	387.0
AM Official	387.0	387.0	387.0	387.0	387.0	387.0
Kerb close	387.0	387.0	387.0	387.0	387.0	387.0
Open int.	387.0	387.0	387.0	387.0	387.0	387.0
Total daily turnover	387.0	387.0	387.0	387.0	387.0	387.0

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

	Set	412.5	412.5	412.5	412.5	412.5
Close	412.5					
Previous	412.5					
High/Low	412.5	412.5	412.5	412.5	412.5	412.5
AM Official	412.5	412.5	412.5	412.5	412.5	412.5
Kerb close	412.5	412.5	412.5	412.5	412.5	412.5
Open int.	412.5	412.5	412.5	412.5	412.5	412.5
Total daily turnover	412.5	412.5	412.5	412.5	412.5	412.5

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

	Set	1317.5	1317.5	1317.5	1317.5	1317.5
Close	1317.5					
Previous	1317.5					
High/Low	1317.5	1317.5	1317.5	1317.5	1317.5	1317.5
AM Official	1317.5	1317.5	1317.5	1317.5	1317.5	1317.5
Kerb close	1317.5	1317.5	1317.5	1317.5	1317.5	1317.5
Open int.	1317.5	1317.5	1317.5	1317.5	1317.5	1317.5
Total daily turnover	1317.5	1317.5	1317.5	1317.5	1317.5	1317.5

SILVER COMEX (5000 Troy oz; \$/troy oz)

	Set	516.2	516.2	516.2	516.2	516.2
Close	516.2					
Previous	516.2					
High/Low	516.2	516.2	516.2	516.2	516.2	516.2
AM Official	516.2	516.2	516.2	516.2	516.2	516.2

INTERNATIONAL CAPITAL MARKETS

US long bond yield moves close to 6%

By Lisa Branstetter in New York and Antonia Sharpe in London

The benchmark 30-year Treasury yield moved towards 6 per cent in early trading yesterday as bonds continued the rally begun early last week.

Near midday, the 30-year Treasury yield was 5.78 per cent, up from 5.75 per cent at the close of the previous session. The yield on the 30-year bond in the past three years was 5.78 per cent in mid-October 1995. At the short end of the maturity spectrum, the two-year note rose 1/8 to 5.25 per cent to 5.25 per cent.

Mr Richard Giliberto, international fixed-income strategist at Paribas Capital Markets, said he had seen "aggressive" buying by money managers rushing to catch up with the soaring market.

Until last week, money managers had put more money into cash. Mr Giliberto said. But as the rally continued on the bond market and their

portfolios began to lag the indices they are compared with, some money has come out of cash and back into the market. "The returns [so far this year] have been huge, but they're measured against their benchmark," he added.

Last week's rally was sparked by hopes that the recent rate of weak economic data would spur the Federal Reserve to lower interest rates and by growing confidence that the president and Congress would agree to a deficit-cutting budget package.

Bonds got no support from the dollar, which slipped in early trading against the D-Mark and yen. The US currency was changing hands at DM1.4385 and ¥101.01 compared with DM1.4460 and ¥101.15 late on Friday.

French bonds weakened ahead of the government's cabinet meeting on how to end public-sector strikes that are crippling the country.

Although the government has said it will stand firm against the unions, analysts said the market was preparing for some sort of compromise on social welfare reform.

"A government defeat would be taken badly by the markets and by the Maastricht hardliners in Germany," said Mr

GOVERNMENT BONDS

Mark Cliffe, chief international economist at HSBC Markets. "The market faces substantial downside in the near term unless the government can face down the unions."

Mr Graham McDevitt, bond strategist at Paribas Capital Markets, said the market was pricing in a worst-case scenario. The yield spread widened to about 91 basis points yesterday from 81 points on Friday and compared with about 64 points at the start of last week.

"The normal trading range for France is 60-80 basis points over Germany but we are now into the crisis range of 80-110 basis points," he said. Debasement of an early rate cut caused the short end of the yield curve to fall further than the long end, resulting in a flattening of about 40 points.

Yesterday, the yield on two-year paper rose to 5.70 per cent from 5.30 per cent on Friday but Mr McDevitt noted that it was still below the 6.30 per cent reached during the French currency crisis in October. On the Maastricht, the December 10-year future fell 0.40 to 118.98.

The French market's fears rippled out to other European markets, notably Italy, Spain, and less justifiably so to Denmark. The yield spread widened to about 91 basis points yesterday from 81 points on Friday and compared with about 64 points at the start of last week.

est rate speculation had died down in Germany, it would be difficult for other European markets to see a further narrowing of their yield spreads.

The other market to outperform was Sweden, where the yield spread over Germany came in by 5 basis points to 256 points following weekend comments by the central bank governor that the strong krona could allow it to cut interest rates.

Gilts came off their early highs as dealers prepared for tomorrow's £3bn auction of 7.5 per cent gilts due 2006. On the March long gilt future eased 1/8 to 109 1/8 in volume of nearly 40,000 contracts while the spread over bonds widened to 159 basis points from 157 points on Friday. Tomorrow, dealers will have just half an hour after the release of October's industrial production and manufacturing output data to decide what to bid in the auction.

S&P lifts Israel debt rating ahead of Yankee

By Julian Ozmame in Jerusalem and Lisa Branstetter in New York

Standard & Poor's, the US-based credit rating agency, yesterday upgraded the State of Israel's foreign currency credit rating from triple B plus to single A minus and assigned the new rating to Israel's first sovereign international public debt issue.

Israel's rated Yankee bond issue, to be completed by the end of this week and expected to raise \$200m, is the first independent bond issue by the Jewish state to be sold without the backing of the US government or another guarantee.

Earlier this year, Israeli Treasury officials said they believed such an upgrade would allow them to shave about 10 basis points off interest payments on the Yankee.

Last month, Moody's Investors Service assigned Israel an equivalent rating of A3. Both ratings reflect assumptions of a strong payment capacity.

Israel is not short of foreign currency as it continues to draw on \$10bn of US loan guarantees spread over five years from 1992. But the Yankee bond issue marks the government's determination to establish a sovereign presence on the international capital markets in preparation for the end of US guarantees.

Mr Cem Karacadağ of S&P said the move marked the beginning of the process of "getting Israel on its own financially independent feet."

Both Moody's and S&P said their ratings reflected growing confidence that Israel would continue to lower its public debt in relation to GDP.

S&P estimated Israel's debt burden would fall to 114 per cent of GDP this year. "It's still high, but what is important is that it is going down," Mr Karacadağ said.

Australia leads bond league table

By Corinne Middelmann and Antonia Sharpe

International government bond markets had a strong month in November, with the J.P. Morgan Government Bond Index returning 1.87 per cent.

After being the worst performer in October, Australia put in the strongest performance, returning 3.41 per cent in local currency terms. It is also the best performer for the year to date, up 19.10 per cent.

In Ireland, anticipation of a new market-making system increased liquidity in the market which, along with low supply and borrowing, led to a 3.38 per cent return.

European markets posted gains on an expected slowdown in economic growth and rate cut hopes. The European Bond Index returned 2.41 per cent.

Canada's bond market returned 2.59 per cent in November, helped by the perception that another Quebec referendum is unlikely until next year, and by the rally in US Treasuries. Canada is the second-best performing market in the year to date, having gained 18.36 per cent.

US bonds posted a return of 1.48 per cent, and Japanese bonds 1.11 per cent.

For the first time this year, European mutual funds were net sellers of domestic equities in October. By contrast, mutual funds throughout Europe remained strong buyers of fixed-income based funds.

J.P. Morgan said falling interest in equities could reflect the poor performance of European equities between August and October, while European bond yields have been falling. "We do not expect the recent volatility of markets to alter the current trend in investor flows," it said.

French and Italian mutual funds sold about \$400m of domestic equities while German and UK funds purchased about \$300m of domestic shares.

Railway and Spanish investors were net buyers for the third month while UK retail investment reached \$1.7bn.

France was the only exception, with a record level of redemptions of FF6.7bn.

In the US, flows into domestic equity funds slowed to \$9.2bn from a record \$12.2bn in September. US fixed-income funds took in \$3.8bn, the highest inflow so far this year.

In the UK, net subscriptions to mutual funds fell to \$597m in October, down about one-third from their high in July.

Warm reception for INI Finance offering

By Corinne Middelmann

The long-awaited \$500m issue of five-year bonds for INI Finance, the funding arm of the new Spanish state industrial holding company, Sociedad Estatal de Participaciones Industriales, received a warm reception yesterday.

INTERNATIONAL BONDS

According to book-runner Morgan Stanley, the deal was placed among a wide range of institutional investors and central banks, and was substantially oversubscribed.

The pricing - offering a yield of 26 basis points over Treasuries at the re-offer price - was widely deemed as fair.

Moreover, investors were attracted by the issue's government guarantee - the last Septi bonds to carry state backing.

Banque Nationale de Paris issued \$350m of five-year bonds targeted at European institutions and backed by "sizeable lead orders", lead manager BNP Capital Markets said.

Priced to yield 35 basis points over Treasuries, the spread widened to 39 points on the latest surge in US Treasuries.

Today, the dollar sector is expecting a \$500m, five-year floating-rate note issue from Swedish mortgage bank Spinlab via Morgan Stanley.

Elsewhere, Daimler-Benz North America tapped the South African rand sector with \$150m of 14 per cent five-year bonds via Deutsche Morgan Grenfell. Proceeds were

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner
US DOLLARS							
INI Finance	500	5.75	98.0378	Dec 2000	0.25R	+265 1/4-01	Morgan Stanley & Co. Inc.
Banque Nationale de Paris	500	5.75	98.2718	Dec 2000	0.30R	+355 1/4-01	BNP Capital Markets
State of Saxony-Anhalt	100	6.50	100.00	Jun 2001	0.275	+100 1/4-02	Paribas Capital Markets
D-MARKS							
State of Saxony-Anhalt	100	5.125	100.36	Jun 2001	0.275	+245 1/4-01	CSFB-Effektbank
BNP	600	5.125	98.8618	Dec 2000	0.25R	-	BNP Capital Markets
Colin International	300	4.384	100.26	Dec 1998	1.50	-	Yamichir Bank (Deutschland)
LUXEMBOURG FRANCS							
De Nib	2bn	5.75	102.80	Jan 2001	1.73	-	CréditEuropéen Kreditbank
ITALIAN LIRE							
IRIS No.3, 2002	220bn	(b1.5)	99.938	Oct 2000	0.275R	-	Paribas Capital Markets
IRIS No.2, 2002	120bn	(b2.5)	98.968	Oct 2000	0.30R	-	Paribas Capital Markets
IRIS No.3, 2002	105bn	(b3.5)	98.848	Oct 2000	0.375R	-	Paribas Capital Markets
DANISH KRONER							
Mortgage Bank of Denmark	400	7.00	101.875	Jan 2003	0.575	-	Unibank
SOUTH AFRICAN RAND							
Daimler-Benz North America	150	14.00	100.98	Jan 2001	1.50	-	Deutsche Morgan Grenfell

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. a) Unlibank, b) Daimler-Benz, c) Daimler-Benz, d) Daimler-Benz, e) Daimler-Benz, f) Daimler-Benz, g) Daimler-Benz, h) Daimler-Benz, i) Daimler-Benz, j) Daimler-Benz, k) Daimler-Benz, l) Daimler-Benz, m) Daimler-Benz, n) Daimler-Benz, o) Daimler-Benz, p) Daimler-Benz, q) Daimler-Benz, r) Daimler-Benz, s) Daimler-Benz, t) Daimler-Benz, u) Daimler-Benz, v) Daimler-Benz, w) Daimler-Benz, x) Daimler-Benz, y) Daimler-Benz, z) Daimler-Benz, aa) Daimler-Benz, ab) Daimler-Benz, ac) Daimler-Benz, ad) Daimler-Benz, ae) Daimler-Benz, af) Daimler-Benz, ag) Daimler-Benz, ah) Daimler-Benz, ai) Daimler-Benz, aj) Daimler-Benz, ak) Daimler-Benz, al) Daimler-Benz, am) Daimler-Benz, an) Daimler-Benz, ao) Daimler-Benz, ap) Daimler-Benz, aq) Daimler-Benz, ar) Daimler-Benz, as) Daimler-Benz, at) Daimler-Benz, au) Daimler-Benz, av) Daimler-Benz, aw) Daimler-Benz, ax) Daimler-Benz, ay) Daimler-Benz, az) Daimler-Benz, ba) Daimler-Benz, bb) Daimler-Benz, bc) Daimler-Benz, bd) Daimler-Benz, be) Daimler-Benz, bf) Daimler-Benz, bg) Daimler-Benz, bh) Daimler-Benz, bi) Daimler-Benz, bj) Daimler-Benz, bk) Daimler-Benz, bl) Daimler-Benz, bm) Daimler-Benz, bn) Daimler-Benz, bo) Daimler-Benz, bp) Daimler-Benz, bq) Daimler-Benz, br) Daimler-Benz, bs) Daimler-Benz, bt) Daimler-Benz, bu) Daimler-Benz, bv) Daimler-Benz, bw) Daimler-Benz, bx) Daimler-Benz, by) Daimler-Benz, bz) Daimler-Benz, ca) Daimler-Benz, cb) Daimler-Benz, cc) Daimler-Benz, cd) Daimler-Benz, ce) Daimler-Benz, cf) Daimler-Benz, cg) Daimler-Benz, ch) Daimler-Benz, ci) Daimler-Benz, cj) Daimler-Benz, ck) Daimler-Benz, cl) Daimler-Benz, cm) Daimler-Benz, cn) Daimler-Benz, co) Daimler-Benz, cp) Daimler-Benz, cq) Daimler-Benz, cr) Daimler-Benz, cs) Daimler-Benz, ct) Daimler-Benz, cu) Daimler-Benz, cv) Daimler-Benz, cw) Daimler-Benz, cx) Daimler-Benz, cy) Daimler-Benz, cz) Daimler-Benz, da) Daimler-Benz, db) Daimler-Benz, dc) Daimler-Benz, dd) 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Daimler-Benz, jo) Daimler-Benz, jp) Daimler-Benz, jq) Daimler-Benz, jr) Daimler-Benz, js) Daimler-Benz, jt) Daimler-Benz, ju) Daimler-Benz, jv) Daimler-Benz, jw) Daimler-Benz, jx) Daimler-Benz, jy) Daimler-Benz, jz) Daimler-Benz, ka) Daimler-Benz, kb) Daimler-Benz, kc) Daimler-Benz, kd) Daimler-Benz, ke) Daimler-Benz, kf) Daimler-Benz, kg) Daimler-Benz, kh) Daimler-Benz, ki) Daimler-Benz, kj) Daimler-Benz, kl) Daimler-Benz, km) Daimler-Benz, kn) Daimler-Benz, ko) Daimler-Benz, kp) Daimler-Benz, kq) Daimler-Benz, kr) Daimler-Benz, ks) Daimler-Benz, kt) Daimler-Benz, ku) Daimler-Benz, kv) Daimler-Benz, kw) Daimler-Benz, kx) Daimler-Benz, ky) Daimler-Benz, kz) Daimler-Benz, la) Daimler-Benz, lb) Daimler-Benz, lc) Daimler-Benz, ld) Daimler-Benz, le) Daimler-Benz, lf) Daimler-Benz, lg) Daimler-Benz, lh) Daimler-Benz, li) Daimler-Benz, lj) Daimler-Benz, lk) Daimler-Benz, ll) Daimler-Benz, lm) Daimler-Benz, ln) Daimler-Benz, lo) Daimler-Benz, lp) Daimler-Benz, lq) Daimler-Benz, lr) Daimler-Benz, ls) Daimler-Benz, lt) Daimler-Benz, lu) Daimler-Benz, lv) Daimler-Benz, lw) Daimler-Benz, lx) Daimler-Benz, ly) Daimler-Benz, lz) Daimler-Benz, ma) Daimler-Benz, mb) Daimler-Benz, mc) Daimler-Benz, md) Daimler-Benz, me) Daimler-Benz, mf) Daimler-Benz, mg) Daimler-Benz, mh) Daimler-Benz, mi) Daimler-Benz, mj) Daimler-Benz, mk) Daimler-Benz, ml) Daimler-Benz, mn) Daimler-Benz, mo) Daimler-Benz, mp) Daimler-Benz, mq) Daimler-Benz, mr) Daimler-Benz, ms) Daimler-Benz, mt) Daimler-Benz, mu) Daimler-Benz, mv) Daimler-Benz, mw) Daimler-Benz, mx) Daimler-Benz, my) Daimler-Benz, mz) Daimler-Benz, na) Daimler-Benz, nb) Daimler-Benz, nc) Daimler-Benz, nd) Daimler-Benz, ne) Daimler-Benz, nf) Daimler-Benz, ng) Daimler-Benz, nh) Daimler-Benz, ni) Daimler-Benz, nj) Daimler-Benz, nk) Daimler-Benz, nl) Daimler-Benz, nm) Daimler-Benz, no) Daimler-Benz, np) Daimler-Benz, nq) Daimler-Benz, nr) Daimler-Benz, ns) Daimler-Benz, nt) Daimler-Benz, nu) Daimler-Benz, nv) Daimler-Benz, nw) Daimler-Benz, nx) Daimler-Benz, ny) Daimler-Benz, nz) Daimler-Benz, oa) Daimler-Benz, ob) Daimler-Benz, oc) Daimler-Benz, od) Daimler-Benz, oe) Daimler-Benz, of) Daimler-Benz, og) Daimler-Benz, oh) Daimler-Benz, oi) Daimler-Benz, oj) Daimler-Benz, ok) Daimler-Benz, ol) Daimler-Benz, om) Daimler-Benz, on) Daimler-Benz, oo) Daimler-Benz, op) Daimler-Benz, oq) Daimler-Benz, or) Daimler-Benz, os) Daimler-Benz, ot) Daimler-Benz, ou) Daimler-Benz, ov) Daimler-Benz, ow) Daimler-Benz, ox) Daimler-Benz, oy) Daimler-Benz, oz) Daimler-Benz, pa) Daimler-Benz, pb) Daimler-Benz, pc) Daimler-Benz, pd) Daimler-Benz, pe) Daimler-Benz, pf) Daimler-Benz, pg) Daimler-Benz, ph) Daimler-Benz, pi) Daimler-Benz, pj) Daimler-Benz, pk) Daimler-Benz, pl) Daimler-Benz, pm) Daimler-Benz, pn) Daimler-Benz, po) Daimler-Benz, pp) Daimler-Benz, pq) Daimler-Benz, pr) Daimler-Benz, ps) Daimler-Benz, pt) Daimler-Benz, pu) Daimler-Benz, pv) Daimler-Benz, pw) Daimler-Benz, px) Daimler-Benz, py) Daimler-Benz, pz) 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Daimler-Benz, sd) Daimler-Benz, se) Daimler-Benz, sf) Daimler-Benz, sg) Daimler-Benz, sh) Daimler-Benz, si) Daimler-Benz, sj) Daimler-Benz, sk) Daimler-Benz, sl) Daimler-Benz, sm) Daimler-Benz, sn) Daimler-Benz, so) Daimler-Benz, sp) Daimler-Benz, sq) Daimler-Benz, sr) Daimler-Benz, ss) Daimler-Benz, st) Daimler-Benz, su) Daimler-Benz, sv) Daimler-Benz, sw) Daimler-Benz, sx) Daimler-Benz, sy) Daimler-Benz, sz) Daimler-Benz, ta) Daimler-Benz, tb) Daimler-Benz, tc) Daimler-Benz, td) Daimler-Benz, te) Daimler-Benz, tf) Daimler-Benz, tg) Daimler-Benz, th) Daimler-Benz, ti) Daimler-Benz, tj) Daimler-Benz, tk) Daimler-Benz, tl) Daimler-Benz, tm) Daimler-Benz, tn) Daimler-Benz, to) Daimler-Benz, tp) Daimler-Benz, tq) Daimler-Benz, tr) Daimler-Benz, ts) Daimler-Benz, tu) Daimler-Benz, tv) Daimler-Benz, tw) Daimler-Benz, tx) Daimler-Benz, ty) Daimler-Benz, tz) Daimler-Benz, ua) Daimler-Benz, ub) Daimler-Benz, uc) Daimler-Benz, ud) Daimler-Benz, ue) Daimler-Benz, uf) Daimler-Benz, ug) Daimler-Benz, uh) Daimler-Benz, ui) Daimler-Benz, uj) Daimler-Benz, uk) Daimler-Benz, ul) Daimler-Benz, um) Daimler-Benz, un) Daimler-Benz, uo) Daimler-Benz, up) Daimler-Benz, uq) Daimler-Benz, ur) Daimler-Benz, us) Daimler-Benz, ut) Daimler-Benz, uu) Daimler-Benz, uv) Daimler-Benz, uw) Daimler-Benz, ux) Daimler-Benz, uy) Daimler-Benz, uz) Daimler-Benz, va) Daimler-Benz, vb) Daimler-Benz, vc) Daimler-Benz, vd) Daimler-Benz, ve) Daimler-Benz, vf) Daimler-Benz, vg) Daimler-Benz, vh) Daimler-Benz, vi) Daimler-Benz, vj) Daimler-Benz, vk) Daimler-Benz, vl) Daimler-Benz, vm) Daimler-Benz, vn) Daimler-Benz, vo) Daimler-Benz, vp) Daimler-Benz, vq) Daimler-Benz, vr) Daimler-Benz, vs) Daimler-Benz, vt) Daimler-Benz, vu) Daimler-Benz, vv) Daimler-Benz, vw) Daimler-Benz, vx) Daimler-Benz, vy) Daimler-Benz, vz) Daimler-Benz, wa) Daimler-Benz, wb) Daimler-Benz, wc) Daimler-Benz, wd) Daimler-Benz, we) Daimler-Benz, wf) Daimler-Benz, wg) Daimler-Benz, wh) Daimler-Benz, wi) Daimler-Benz, wj) Daimler-Benz, wk) Daimler-Benz, wl) Daimler-Benz, wm) Daimler-Benz, wn) Daimler-Benz, wo) Daimler-Benz, wp) Daimler-Benz, wq) Daimler-Benz, wr) Daimler-Benz, ws) Daimler-Benz, wt) Daimler-Benz, wu) Daimler-Benz, wv) Daimler-Benz, ww) Daimler-Benz, wx) Daimler-Benz, wy) Daimler-Benz, wz) Daimler-Benz, xa) Daimler-Benz, xb) Daimler-Benz, xc) Daimler-Benz, xd) Daimler-Benz, xe) Daimler-Benz, xf) Daimler-Benz, xg) Daimler-Benz, xh) Daimler-Benz, xi) Daimler-Benz, xj) Daimler-Benz, xk) Daimler-Benz, xl) Daimler-Benz, xm) Daimler-Benz, xn) Daimler-Benz, xo) Daimler-Benz, xp) Daimler-Benz, xq) Daimler-Benz, xr) Daimler-Benz, xs) Daimler-Benz, xt) Daimler-Benz, xu) Daimler-Benz, xv) Daimler-Benz, xw) Daimler-Benz, xx) Daimler-Benz, xy) Daimler-Benz, xz) Daimler-Benz, ya) Daimler-Benz, yb) Daimler-Benz, yc) Daimler-Benz, yd) Daimler-Benz, ye) Daimler-Benz, yf) Daimler-Benz, yg) Daimler-Benz, yh) Daimler-Benz, yi) Daimler-Benz, yj) Daimler-Benz, yk) Daimler-Benz, yl) Daimler-Benz, ym) Daimler-Benz, yn) Daimler-Benz, yo) Daimler-Benz, yp) Daimler-Benz, yq) Daimler-Benz, yr) Daimler-Benz, ys) Daimler-Benz, yt) Daimler-Benz, yu) Daimler-Benz, yv) Daimler-Benz, yw) Daimler-Benz, yx) Daimler-Benz, yy) Daimler-Benz, yz) Daimler-Benz, za) Daimler-Benz, zb) Daimler-Benz, zc) Daimler-Benz, zd) Daimler-Benz, ze) Daimler-Benz, zf) Daimler-Benz, zg) Daimler-Benz, zh) Daimler-Benz, zi) Daimler-Benz, zj) Daimler-Benz, zk) Daimler-Benz, zl) Daimler-Benz, zm) Daimler-Benz, zn) Daimler-Benz, zo) Daimler-Benz, zp) Daimler-Benz, zq) Daimler-Benz, zr) Daimler-Benz, zs) Daimler-Benz, zt) Daimler-Benz, zu) Daimler-Benz, zv) Daimler-Benz, zw) Daimler-Benz, zx) Daimler-Benz, zy) Daimler-Benz, zz) Daimler-Benz

DM600m of five-year bonds. Yielding 26 basis points over the German benchmark bond, the issue was deemed too tightly priced. "I think 30 over would have been more appropriate," said one dealer.

Others said the government

guarantee and the borrower's rarity should help the issue, though retail investors were unlikely to be big buyers. Lead manager CSFB Effektbank reported strong institutional banks, including to central banks and supranationals.

FT-ACTUARIES FIXED INCOME INDICES

Index	Dec 4	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sept 30	Sept 29	Sept 28	Sept 27	Sept 26	Sept 25	Sept 24	Sept 23	Sept 22	Sept 21	Sept 20	Sept 19	Sept 18	Sept 17	Sept 16	Sept 15	Sept 14	Sept 13	Sept 12	Sept 11	Sept 10	Sept 9	Sept 8	Sept 7	Sept 6	Sept 5	Sept 4	Sept 3	Sept 2	Sept 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	July 31	July 30	July 29	July 28	July 27	July 26	July 25	July 24	July 23	July 22	July 21	July 20	July 19	July 18	July 17	July 16	July 15	July 14	July 13	July 12	July 11	July 10	July 9	July 8	July 7	July 6	July 5	July 4	July 3	July 2	July 1	June 30	June 29	June 28	June 27	June 26	June 25	June 24	June 23	June 22	June 21	June 20	June 19	June 18	June 17	June 16	June 15	June 14	June 13	June 12	June 11
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INVESTMENT TRUSTS - Cont.

Notes	Price	Yield
Italy & Spain ISS	90	180
Warrants	25	28
Gov Annuity	124	144
Italy & Spain II Discovery	94	94
Warrants	25	28
Knightwear Chain	245	245
Knightwear Gas	245	245
Knightwear Energy Link	112	121
Knightwear Energy Link	112	76
Knightwear Energy Link	112	120
Knightwear Energy Link	112	84
Warrants	25	27
Knightwear Chain & T	245	245
Knightwear 2nd Edition	105	105
Knightwear Smith	131	149
Law Debentures	674	665

London & St Lawrence	37	175
Long & St Lawrence	37	185
Long & St Lawrence	37	36
Long & St Lawrence	37	178
Long & St Lawrence	37	71
Long & St Lawrence	37	18
Long & St Lawrence	37	181
Long & St Lawrence	37	255
Long & St Lawrence	37	219
Long & St Lawrence	37	183
Long & St Lawrence	37	57
Long & St Lawrence	37	122
Long & St Lawrence	37	38
Long & St Lawrence	37	183
Long & St Lawrence	37	287
Long & St Lawrence	37	82
Long & St Lawrence	37	39

Warrants	130	130
Moscow Groceries	79	362
Moscow Groceries	79	31
Moscow World Map	161	426
Moscow World Map	401	57
Moscow World Map	56	28
Moscow World Map	56	577
Moscow World Map	29	100
Moscow World Map	93	46
Moscow World Map	42	183
Moscow World Map	183	43
Moscow World Map	32	43
Moscow World Map	112	184
Moscow World Map	315	63
Moscow World Map	1806	63
Moscow World Map	91	63
Moscow World Map	91	63

Murray G Unit A	\$6	-	-
Warrants	82	-	-
Murray Corp Bonds	21	-	62
Warrants	21	-	40
Murray Est.	119	-	130
Warrants	21	-	33
Murray European	51	-	65
Warrants	16	-	17
Murray Inc.	376	+1	376
B	374	-	376
Murray Int.	376	-	376
B	376	+1	376
Murray Smelt M.	636	-	660
B	420	-	663
Murray Ventures	368	-	377

NE Sander Co's	143rd	144
NE Sander Aust.	84	85
Warrants	29	30
Harbort Insur Soc Co.	93	99
Warrants	29	33
Westport South Co's	122	127
Warrants	29	34
New City & Comm.	108	110
Warrants	36	40
R.P.I. Debt 2008	ETB9	ET11
New Zealand	268	267
Newmarket V	15	19
Wb Amer Gas	315	85
Mid Atlantic Safe Corp	315	82

USLH Ltr 2013	318	---	---
Northwest Area	318	---	---
Old Mutual SA	116	---	116
Warrants	38	---	---
Overseas Inv	369	---	372
Warrants	189	---	201
Pacific Assets	41	+2	741
Singapore Warrants	41	+2	58
Pac Holdings	451	---	671
Overseas Inv	208	---	217
Warrants	81	---	87
Pacific Franch	124	-31	135
Personal Japan	86	---	95
Warrants	32	+2	28
Personal UK Sml Cos	287	---	289
Personal Assets	2167	+2	2169
Phil Inv	1088	---	128

Company	Price	Change	Volume
Warrington	28	0	43
Precision	283	0	283
Prolog Income	112 1/2	+5 1/2	112 1/2
Warrington	28	0	31
Precision Intl	283	0	283
Warrington	72	+1	80
RIT Capital	208	0	208
2-2c Gr Ln 2000	2297 1/2	+2 1/2	2298 1/2
Redwood	78	0	81
RV & Motor S&S	125	0	141
Warrington	34	0	35
SI Andrew	352	-1	357
Saracen Value	99 1/2	0	102
Warrington	28	0	121
Schneider UK Gen	128	0	121
Warrington	28	0	26

[illegible]

Signal Avenue	144	---	---	161
Signal Ave	169	---	---	173
Signal Ave	189	---	---	173
Signal Ave	137	---	---	142
Signal Ave	276	---	---	289
Signal Ave	133	+	---	148
Signal Ave	4	---	---	17
Signal Ave	130	---	---	138
Signal Ave	45	---	---	51
Signal Ave	31	---	---	38
Signal Ave	72	+	---	87
Signal Ave	281	---	---	45
Signal Ave	388	+	---	391
Signal Ave	125	---	---	138
Signal Ave	412	---	---	54
Signal Ave	714	+	---	80

Warrants	17	+1	31
Thompson Olive	265		268
Thompson Action	103 1/2	+ 1/2	114
Thorp Prod Inc.	78		116
Thru 1000 Sales Co.	132		+139
Tide	18		28
Timpanogas Tel.	89		85
TR City of Los	171		171
TR Euro Growth	201		201
Tru Sub	86		182
TR Fair East Inc.	189 1/2	+1 1/2	187
Warrants	88		83
High Inc.	128 1/2		133
Sub	28		34
TR Pacific	106	+2 1/2	119
TR Prop.	27 1/2		31 1/2

Warrantors	44	288
TR Smaller	202	68
Trust of Prop	59	68
Turkey Trust	178	241
Warrantors	58	120
US Smaller Cos.	172	130
Warrantors	83	84
USDC	57	257
Undertaken Assets	113	117
Value & Inc.	129	136
Warrantors	31	85
Warrantors	31	85
Warrantors & Value	39	364
Warrantors	158	180
Warrantors Prop	68	66
Warrantors	15	22
Warrantors	280	262

	Notes	Price	+ or -	52 weeks High
Approved by the Federal Reserve				
Albertson Split Inc. 7c		77	—	99
Cap		224	—	230
Units		303	—	311
Abstract Ppt Inc 7c		102	—	107 1/2
Zero Div Ppt		184	+1	184 1/2
Archimedes Inc		205	—	205
Cap		405	—	439

City of Ontario	4-1v	281	2	341
Wearments		342		8
Zero Div PI		115		116
Contra-Cycl Inc	4v	59		67
Cap	v	13	-15	22
Zero Div PI		86		108
Danac Inc	4v	75		80
Cap	v	38		39
Dorby Inc	4v	156		185
Cap	v	343	37	345
University Of Ar Div	4v	95		103
Monetary Div		108		145
Edinburgh Income	4v	266		48
Zero Div PI		71		71
Esomper Dist	4v	134		27
Inc	v	694		77
Zero Com PI		280	1	290

Refrigerator Supply Co's 4-1/2	195		195
Zero M	215		215
Ring Guarded Inc 4-1/2	210		210
Co Pkg Pl	190		190
Reming T & C 4-1/2	78		87
_____ Mo	130		131
Zero Dm Pl	50		50
Flaming Mt High 4-1/2	30		30
Zero Dm Pl	11		11
For & Cat SGT 30 Inc 4-1/2	60		63
Capital	80		80
Unics	110		131
_____ W	90		86
Worship	40		45
Fraser Prov Clinical 4-1/2	60		60
Unics	177		180
Zero Dm Pl	110		110

Accum Inc.	4v	340	46
Cap		18	24
Zero Div Pk		181	181
Barbours Inc. 4v	4v	87	59
Zero Div Pk		135	135
Units		215	220
Barbours Scot Inc. 4v	4v	62	72
Cap		112	114
Zero Div Pk		194	194
Units		256	263
South East Inc. 4v	4v	500	101
South East Pk		221	121
Junior Zero Pk		118	123
Jr Cons Inc.		1163	113
Cap		174	183
Shopped Pk		184	167
Shopped Pk		85	86

Item	10	13
PI	1022	1022
MTS Inc & Subs Inc 20	109	115
Zero Day PI	119	119
Anderson Enrolled 50	93	104
Units	134	143
Zero PI	434	434
Hong Kong	58	58
Zero PI	40	40
US Operations 7	103	103
Zero PI	238	238
INVERSCO Blue Chip 40	85	72
Zero PI	183	184
INVERSCO Recovery 4	80	110
Mid Growth	188	188
Johnson Fry Euro 40	83	94
Zero PI	172	128

Zoro Div Pl	Share	415	---	---	99
Zoro Div Pl	---	119	---	---	119
Zoro Div Pl	Fry Mkt	99	---	---	111
Zoro Div Pl	---	127	---	---	127
Income	Cap	117	---	+	117
Zoro Div Pl	---	95	---	---	103
Cap Inc	---	149	---	+	149
Devs Inc	---	35	---	---	35
Devs Inc	---	78	---	---	83
Devs Inc	---	47	---	---	48
Zoro Div Pl	---	50	---	+	50
Devs Inc	---	48	---	---	51
Devs Inc	---	30	---	---	31
Devs Inc	---	125	---	---	128
Zoro Div Pl	---	78	---	+	79
Devs Inc	---	89	---	---	91

Joyce Sewer Ltp	1703	170
Capital	128	130
Dividend	102	102
	281	281

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APM - Cont[illegible]

CANADIAN

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FTSE	1982	1983	1984	1985	1986
1982	1983	1984	1985	1986	2.0 1.8

LONDON SHARE SERVICE

Share Service delivered by FT Esol, a member of the FT Group.

are based on those listed for the FT-SE All-Share Index.

shown in prices unless otherwise stated. High and low prices are shown for the first day of trading. The first day of trading is the day after the share is issued. The first day of trading is the day after the share is issued.

Dividends and Dividend covers are shown in pence.

is calculated separately for each line of stock.

are based on IASB 'Headline Earnings' figures.

are based on latest annual reports and accounts and are subject to audit.

-prices, are given, adjusted for a dividend the next day.

for value of corporate acquisition and creation.

values (MWh) are shown for Investment Trusts, in pence.

with the percentage discounts (bid) or premiums (offer) over the current market price.

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10-14 page report available on
containing key FT stories from the
surveying of City profit forecasts and
recommendations, 5 year financial and
performance review, balance sheet
loss data, plus recent Stock

TRANSPOR

182	BAA	★TV
181	Bolton Parts	★TV
190	Brock Airways	★TV
	Don't Miss It	

17.1	International Co.	...
21.3	Firstbank	...
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170 United Carners
Wah Kwong HOS. . .

14.1	Don Valley	tv
15.7	East Surrey	tv
12.9	Warrington	tv

CAN PM

62
14 Notes
- Alisa Omlor . . .

11.5	Ask Central	1
7.2	Banks	1
6.4	...	1

3.3	Corporate Union Fund Ass'n	v
2.7	CI Council (TV)	... tv
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-	Publications	..

3.1	Deer Corp.	---	V
0.5	Electrophonics	---	A
2.4	Euro Sales Finance	---	V
1.6	Fininvest	---	24

• **Business Group:** 14

EUROPE
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AUTOMATION • AVIONICS • TELECOMMUNICATIONS
DEFENSE ELECTRONICS • AEROSPACE • AUTOMOTIVE • GRAPHIC SYSTEMS

US INDICES

[illegible]**■ TOKYO - MOST ACTIVE STOCKS:** Monday, December 4, 1995

	Stocks Traded	Closing Prices	Ch on
...	4.8m	552	
...	4.8m	2470	
...	4.1m	419	
...	3.9m	526	
...	3.7m	300	

AMEX

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Continued on next page

NASDAQ NATIONAL MARKET[illegible]

Feeling Low	70	202	51 1/2	65 1/2	65 1/2	1/2
Midnight	10	10	22 1/2	20 1/2	20 1/2	1/2

[illegible]

Financial Times. World Business Newspaper

the 1990s, the number of people in the world who are under 15 years of age is expected to increase by 1.5 billion, from 1.1 billion in 1990 to 2.6 billion in 2010. The number of people aged 65 and over is expected to increase by 1 billion, from 350 million in 1990 to 1.4 billion in 2010. The number of people aged 15-64 is expected to increase by 1.5 billion, from 1.1 billion in 1990 to 2.6 billion in 2010. The number of people aged 65 and over is expected to increase by 1 billion, from 350 million in 1990 to 1.4 billion in 2010. The number of people aged 15-64 is expected to increase by 1.5 billion, from 1.1 billion in 1990 to 2.6 billion in 2010.

AMERICA

Tech stocks
spur gains in
Dow, S&P

Wall Street

US share prices advanced in early trading as the bond market continued to soar and technology issues regained their footing, writes Lisa Branstetter in New York.

At 1 pm, the technology-rich Nasdaq composite was 12.82 higher at 1,068.13. That put the index on track to break the closing high of 1,067.40 set on September 13. The Pacific Stock Exchange technology index added nearly 2 per cent in early trading.

Both indices were building on advances made last week as they recovered from weakness seen in the middle of November when investors worried about softening sales of semiconductor.

Semiconductor and semiconductor equipment companies were among the strongest performers. Intel added 1 1/2% at \$62 3/4. Texas Instruments was 1 1/4% stronger at \$56 1/4. Micron Technology was up 1 1/4% at \$53 1/4 and Applied Materials climbed 3/4% to \$49.

LSI Logic forged ahead 5/8% or 16 per cent to \$47 and was the most actively traded issue on the NYSE, after unveiling a new chip that could power a new breed of low-cost computers designed solely to provide users with access to the Internet.

Gains in technology helped spur gains in broader indices. At 1 pm, the Dow Jones Industrial Average was up 14.09 at 3,101.32. The Standard & Poor's 500 was 4.38 stronger at 611.26 and the American Stock Exchange composite added 1.03

at 537.67. New York SE volume came to 234m shares.

Also helping US share prices was a continuation of last week's sharp rally on the bond market. Around 1 pm the benchmark 90-year Treasury had added more than a point, sending the yield down to 6.014 per cent.

Shares in the three US carmakers were higher after reporting late last week that November sales were not as poor as the October figures. General Motors added 1 1/4% at \$51. Chrysler was 1 1/4% stronger at \$53 1/4 and Ford moved forward 3/4% to \$28 3/4.

Internet-related companies were mixed. Netscape Communications jumped 5/8% or 6 per cent to \$145 1/4 and Spyglass was 3 1/4% stronger at \$109 1/4, while UUNET slumped 1/4% at \$74 1/4. The volatile American Stock Exchange Internet index added 3 per cent.

Canada

Toronto was firm in midday trade, helped by a strong gold sector and aided by a higher US bond market that pulled up Canadian bonds. The TSE 300 composite index was 20.38 ahead by noon at 4,694.40 in volume of 37.2m shares.

Royal Bank of Canada, the country's largest, picked up 3/8% to C\$32 1/4 ahead of fourth-quarter results due today.

High-technology stocks were mixed. Metroworks, the software maker, jumped 3/4% to C\$20 1/4 and Knowledge Network, the computer networking group, picked up 3/4% to C\$55 1/4. Gandalf Technologies gave up 1/4% to C\$25 1/4.

Chile surges ahead

Santiago surged ahead in busy midday trade on expectations of a flood of new capital into the market after the IFC's decision to raise Chile's weightings in its stock index from 1.9 per cent to 7.3 per cent from January.

The weighted IPSA index ended the second round 3.6 per cent higher at 99.2, while the general IGPA index firmed 1.6 per cent to 5,696.38.

MEXICO CITY was higher at midday in cautious trade after

Mr Carlos Salinas, the former president, accused one of his predecessors of trying to destabilise the country. The IPC index had gained 11.98 at 2,715.40.

CARACAS inched forward in midday trade as investors edged positively to opposition party gains in Sunday's elections, which were regarded as a prelude to changes of economic policy.

The Merinvest composite index picked up 0.06 to 137.08.

EUROPE

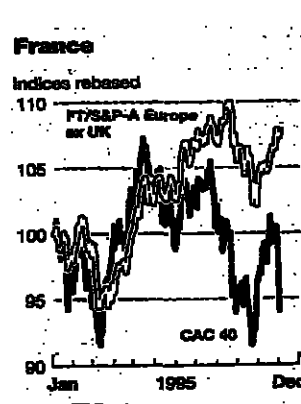
Pechiney goes ahead in spite of 2.5% Paris drop

The most sensational event in PARIS happened after the market closed another 2.5 per cent down, after last week's near 4 per cent decline: the French Finance Ministry went ahead with the privatisation of Pechiney, right at the bottom end of its indicative price range of FF187 to FF215 a share.

Mr Michael Woodcock at Williams de Broe noted that the price of FF187 was virtually equivalent to last night's price of the investment certificates in the aluminum and packaging group: an intuitive FF220 higher at FF207, when the CAC-40 index had closed 46.05 lower at 1,774.86. Some observers had predicted that the Pechiney offer would be withdrawn altogether.

Meanwhile, said Mr Woodcock, it was some of the country's most widely held international stocks that were sold on the day. Turnover rose to FF3.8bn as Elf Aquitaine dropped FF14.40 to FF332.10, Rhone-Poulenc A by FF3.70 to FF103.30 and Lafarge by FF3 to FF306.

One of the day's biggest losers was Navigation Miltre, the diversified conglomerate which was subject to a boardroom coup earlier this year at the instigation of its farthest shareholder, Faribast. The



Source: FT Data

group last Friday said it expected a FF300m to FF500m loss for 1995; yesterday it fell FF161 to FF199, down 43 per cent since the start. Paribas slid FF18.10 to FF282, down 14 per cent over the same period.

FRANKFURT was enervated for most of the day by dollar weakness and the interlinked worries about political and industrial strife in France, but a late recovery in the dollar and the French franc allowed the Dax index to close near its day's high, at an Ibis-indicated 2,361.08, off 5.45.

Some of the standard cyclical stocks were marked down but turnover was just DM2.2bn and

the share price moves looked precarious. BMW, the worst performer among the big blue chips, fell less than 1 per cent at DM778.50, down DM7.50.

The main blue chip winners were also less than convincing. Karstadt and Kaufhof rose DM6 to DM585 and DM4.50 to DM447.50 on reports of brisk holiday shopping last Saturday, the first in the Christmas season when stores were allowed to stay open past the usual 1800 GMT closing time. Six days earlier, the sector had been weak on reports that business was slack.

Among second liners, Bertelsmann rose DM5 to DM155 as a subsidiary was cleared to join the controlling shareholders in Monegasque des Ondes, active in television broadcasting and sale of advertising time through the Tele Monte Carlo channel. Fresenius, the pharmaceutical equipment group, rose DM50 to DM1,500 as it refused to comment on a report saying it was in talks with WR Grace about buying a dialysis unit; and Kolbenschmidt, the car parts maker, closed DM3 higher at DM208 on more than quadruple 1994-95 profits.

MILAN saw a second successive setback for Eni, the energy group privatised last

FT-SE Actuaries Share Indices

FT-SE Activities Share Indices											
		THE EUROPEAN SERIES									
Dec 4		Open	10.30	11.00	12.00	* 13.00	14.00	15.00	Close		
Hourly changes											
FT-SE Eurostock 100	1446.52	1446.39	1446.80	1447.00	1444.94	1444.01	1444.37	1446.02	1446.02		
FT-SE Eurostock 200	1557.58	1558.75	1557.72	1558.06	1557.08	1556.75	1556.43	1557.88	1557.88		
		Dec 1		Nov 30		Nov 29		Nov 28		Nov 27	
FT-SE Eurostock 100	1457.96		1454.02	1454.02	1461.76	1461.25	1462.30	1462.30		1462.30	
FT-SE Eurostock 200	1584.88		1582.18	1582.18	1588.98	1587.62	1588.91	1589.91		1589.91	

ENERGY EFFICIENCY

Pollution threat is the driving force

There is a world consensus on the need to limit dangerous climatic changes by using fuel more carefully. Leyla Boulton on prospects for reaching this goal

The environment has become the chief driver behind efforts to improve levels of energy efficiency as the end of the 20th century approaches. Until the late 1980s, the impetus to make more efficient use of energy came mainly from its high cost, and a wish by countries to reduce their dependence on energy supplies imported from abroad. Since then, a sharp fall in the price of oil and the discovery of substantial new reserves of oil and gas around the world have alleviated these pressures.

But developed nations and - to an increasing extent - fast-growing developing nations have been spurred on by evidence that the burning of fossil fuels contributes importantly to the poorly-known phenomenon of climate change.

This view was strongly reinforced by an international team of meteorological experts who reported last week that "the balance of evidence suggests that there is a discernible human influence on global climate". Their forecast - that the earth's mean surface temperature would be 2 degrees higher in 2010 than in 1990 - will be considered at an inter-governmental conference in Rome this month.

It will further strengthen the consensus on the need to reduce carbon emissions from the burning of fossil fuels and to cut energy waste, an aim which also makes economic sense.

"The actions being proposed offer benefits in their own right," says Mohamed El-Ashry, chief executive of the Global Environmental Facility, the Washington-based multilateral fund set up to help developing countries combat global problems such as climate change.

"Should global warming prove to be a fallacy, nothing will be lost. When you talk of energy efficiency, how can this be bad for anyone's health or anyone's economy?"

"Eventually we're going to run out of oil. You're left with coal. We know what the consequences of coal are apart from carbon dioxide emissions - dust, acid rain, and smoke."

At the international climate change conference in Berlin in April, developed nations undertook to agree by 1997 specific targets to reduce their carbon emissions after the year 2000. These would build on the present, less formal, commitment

to stabilise emissions by the year 2000 at 1990 levels.

Scepticism has been running high about the likely effectiveness of these agreements. Business and other critics have cited continuing scientific uncertainty over the exact nature of the threat as a reason to delay action. "This is not a catastrophe waiting to happen next week or in five years," says Mr Clement Malin, a Texaco executive who headed the largest business delegation at the Berlin conference.

"It is a strategic concern and we need to address it rationally. Better to take longer and to get it right. If time works on your side, alternative technologies may be fully competitive in 20 years' time."

There has also been a marked reluctance in developed countries to countenance any substantial changes to lifestyle for the sake of tackling a problem, the effects of which seem not just little known but

remote in time. In western European countries such as Britain, energy taxation is already high compared with the rest of the world.

But the US, which accounts for a quarter of the world's carbon emissions, has rejected President Bill Clinton's proposals for a modest carbon tax, while the European Union failed this time last year to get through a harmonised carbon tax and has left it to individual countries to experiment with

Rich countries do not want to change their life style

national schemes before revisiting the issue at a later date.

Developing countries meanwhile have argued they cannot be expected to slow their attempts to catch up with western levels of prosperity because of a problem created by rich countries.

So far, the developed world has agreed to developing countries' demand that they should be entitled to financial assistance to help them to get involved in the process.

Berlin set in motion a pilot

project to encourage developed world companies to transfer technology and investment, enabling less developed countries to reduce their emissions.

Ultimately, if environmental concerns do drive energy efficiency, the main motor for change will have to be technology. Businesses are likely to have strong pressures exerted on them to come up with their own solutions before external ones are imposed.

Mr El-Ashry is encouraged by the way costs of solar power have come down despite relatively low investment in it. Energy companies such as Euron, which has been working on solar power, have been actively involved in renewable energy research.

A workshop scheduled for February in Geneva will also explore the possibility of giving business, which has so far attended climate change meetings as lobbyist on the sidelines, a formal role in the climate change negotiations.

However, Dr Michael Grubb, a fellow at Britain's Royal Institute of International Affairs, who is also involved in the work of the Intergovernmental Panel on Climate Change, believes that at Berlin the business community failed to impress governments as a potentially worthy partner.

It displayed for the first time, he says, three separate ideological positions on climate change. At one extreme was a "hardline group of predominantly US, predominantly coal, interests" which "struggled to halt the tide towards some new steps". At the other, he saw the "sunrise" industries of renewable energy and energy efficiency joining forces with some gas companies and the insurance industry to support radical calls for emission cuts of 20 per cent by the year 2005.

"Stretched painfully and widely across the middle ground," adds Dr Grubb, "were the oil companies...suspecting that their long-term interests lay in going with the tide, or at least being seen not to be trying to stave it."

It will be up to the business community at large to prove with its contributions to energy efficiency over the long-term whether such categorisations are too dismissive.



HIGH ABOVE LONDON. Siebe Environmental Systems is installing wiring as part of a £1.5m contract to manufacture, install and commission a building management system. It is part of a £85m refurbishment of 99 Bishopsgate, a prominent block in the City of London wrecked by an IRA bomb. The system, designed by

FHP, has to meet the environmental demands of the 1990s in a 20 year-old shell, as well as the new trend for multiple lettings. Landlords Hammerman will be able to break down bills for occupiers because the building is zoned in quarters and floor-by-floor special motor controllers for the fan coils will also reduce energy consumption by up to half.

Commercial building design: by David Lawson

Open the windows

Natural ventilation, taboo in many modern offices, may become respectable again

When stone age man dragged a pile of branches to block the wind whistling into his cave, he probably got no more reaction from the rest of his tribe than a reputation as an eccentric. They knew it was easier to burn the wood instead.

Only when the forests began to disappear did they wonder whether it might be worth

sweating a little to build rudimentary doors.

Little has changed in 5,000 years. Some of the most sophisticated modern buildings are notoriously energy-intensive, but the costs have before other charges. Occupiers have had little inclination to go hunting for branches.

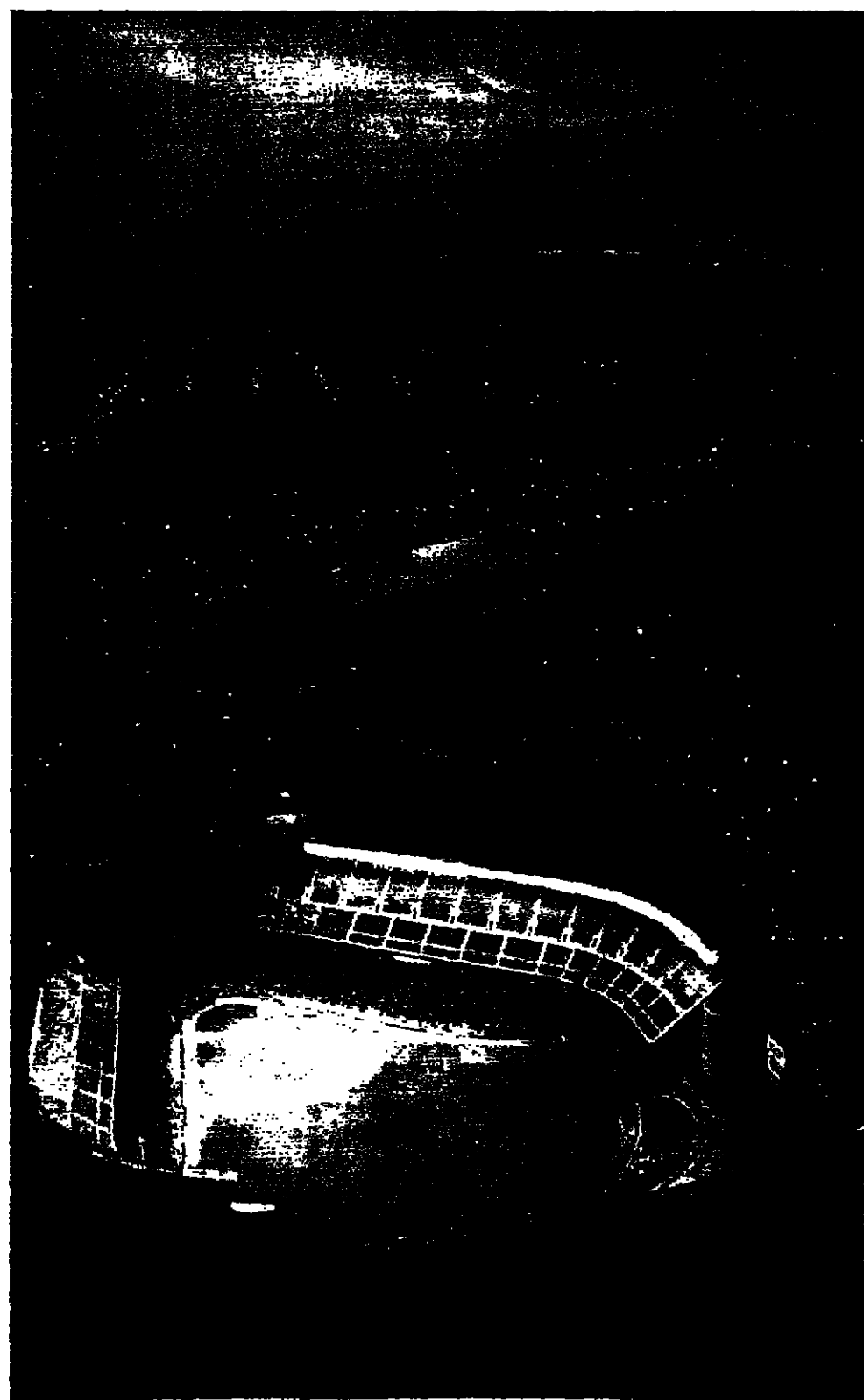
Annual service charges on a top-quality office building in central London, for instance, are around £5.00 a sq ft (less than £61 a sq metre) compared with rents which top £20 a sq ft and went to twice that level in the boom years. Overall property costs are generally a

minor component of most commercial "outlay" falling well behind staff overheads.

But the recession sent businesses scurrying through their accounts looking for ways of reducing costs and an awareness dawned that energy could be among the most cuttable of costs. It tops the list for the kind of energy-greedy office block which has become a standard in city centres around the world. Even less sophisticated buildings pay a heavy toll, however.

In the UK, for instance, prop

Continued on next page



Can you light up the sky without clouding the air?

Natural gas - affordable, safe and available - is an increasingly popular choice for driving turbines that generate electrical power all over the world. Although it

burns relatively cleanly, combustion does produce nitrogen oxide, implicated in acid rain. Abatement techniques have reduced emissions, but heightened awareness among the industrial nations continues to generate tighter legislative controls and the development of ecologically-sound power plants.

Conventional methods of controlling emissions are costly and dampen efficiency. However, ABB research has now developed a way to burn them off. It is a total solution, reducing pollutants while maintaining efficiency, thus consuming less fossil fuel. ABB has installed its innovative "EV-burner" in the Midland Cogeneration Venture, a joint project to produce power for the Dow Chemical Company and the State of Michigan, USA. At full power load, this plant is now producing emission levels well below the world's most stringent requirements.

As a leader in electrical engineering for industry and transportation, and in the generation, transmission and distribution of power, ABB is committed to industrial and ecological efficiency worldwide. We transfer know-how across borders with ease. But in each country, ABB operations are local and flexible. That means we can help our customers respond swiftly and surely to technological challenges which stretch the limits of the possible. Like burning gas without clouding the sky.

Yes, you can.

ABB

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25/12/95

2 ENERGY EFFICIENCY

■ Waste-derived energy: by Leyla Boulton

Swedes set a burning example

Incineration of refuse as power station fuel has advantages and its drawbacks

An industrial coalition of 20 members has launched a campaign with European Commission funding to galvanise support for incineration under the more glamorous heading of "recovering energy from waste".

The European Energy from Waste Coalition (EEWC), set up last November, is Swedish-dominated with members including representatives of the country's packaging, forestry, and waste management industries. This is partly because Swedish businesses such as Tetra Pak, one of the world's leading packaging manufacturers, have a heavy interest in incineration of composite packaging which is not easily recycled.

The EEWC also points to the fact that combined heat and power plants fuelled by solid waste produce 15 per cent of local district heating in Sweden, one of the "greener" nations of Europe.

Non-Swedish members of the coalition include the US multi-national Procter & Gamble, which also generates a lot of packaging, Coca-Cola and the US-owned Waste Management International. The group even includes a UK local authority - Hampshire County Council - which favours incineration as a convenient way of getting rid of more of its waste.

Incineration has traditionally been associated with the production of dangerous cancer-causing byproducts known as dioxins.

The EEWC argues, however, that technological advances in incineration mean that state-of-the-art plants which produce energy from waste can eliminate more than 70 per cent of dioxins generated by the burning of municipal solid waste. A European Union directive on municipal waste incineration requires all plants which do not meet new dioxin safety limits to close by the end of next year.

In the UK, this will mean that all but one of 26 municipal solid waste incinerators will have to shut down or undergo multi-million pound refurbishments. The UK government expects this to give a 35 per cent cut in dioxin emissions from incinerators, which account for 70 per cent of dioxin discharges into the air.

But Friends of the Earth, the UK-based environmental group, opposes incineration on several counts. "This has been wrapped up in new clothes because of the energy recovery component," says Mr Alan Watson, Friends of the Earth's spokesman on industrial pollution. But he argues that recycling is even more energy-efficient than incineration. Moreover, ash from the state-

of-the-art plants is more toxic than that from older plants and poses even more of a danger when disposed of in landfill sites.

For this reason, he notes, Sweden has been looking to vitrify the ash from its more modern incinerators. The problem is that the energy consumed in this process would substantially lessen the net gain of energy generated by incineration.

Most importantly, environmentalists groups appear to fear that making incineration more respectable will take pressure off manufacturers to minimise the production of non-recyclable waste. "If you can't recycle your products you should look seriously at your manufacturing technology to make materials that can be renewed," says Mr Watson.

He adds that incineration plants are so expensive that they are in danger of locking local authorities into diverting as much waste as they can

towards incinerators to make such plants profitable. "Should we let our waste strategy be determined by a few manufacturers who are asking society to follow the very expensive route of incineration to dispose of their problem?"

Mr Armand Colling, the European Commission official who supervises what he calls "symbolic" assistance for the EEWC, claims that "no well-intentioned environmentalist can deny there is a need to use waste in ways other than recycling. It would be ridiculous to say you can burn oil in power stations, cars and houses but that you cannot heat homes with heat from oil from plastics produced with oil."

The programme half-funded by the Commission involves taking local authorities to visit state-of-the-art incineration plants. It should be an option when waste minimisation, reuse, or recycling are not possible.

which actions would have the biggest payback, a vital factor when justifying them to the board, according to Mr Paul Barless, head of environmental assessment at the BRE.

"Without such a system, environmental campaigns tend to be picked at random," adds Mr Tony Bishop, PA Consulting environment manager.

Following Toolkit guidelines can cut the average office worker's consumption by 5 per cent a year. As these average £4,000 (including business travel) a year, that saves £200 per person, says PA.

The other management tool involves an assessment of whole buildings, commonly known as BREEM testing. This can advise potential occupiers on how well various alternative accommodation performs in ecological terms. It can also be used as a checklist for action by businesses looking at existing premises.

Stone age man would have approved. He knew that branching into energy management was better than burning away his assets.

This uses a points system to grade different activities. Managers can therefore determine

heating, lighting and ventilation. Offices alone are estimated to consume an eighth of the UK's bills once transport used by staff is included.

Good management could cut costs by a quarter, according to a series of studies by the BRE for the government's Best Practice awards. Many involve no capital expenditure. Up to a fifth can be cut from bills merely by turning off lights and computers when unused. The average PC consumes 800kw of energy a year and requires almost half as much again to disperse the heat.

There are many similar simple steps which can have a significant impact but the BRE saw little practical advice available to ordinary businesses. Two management aids have been developed to help. The Office Toolkit, designed by the BRE and PA Consulting Group and road tested by eight big sponsors including the BBC and Prudential, produced some remarkable results.

This uses a points system to grade different activities. Managers can therefore determine

■ Greenhouse politics: by Leyla Boulton

Rocky road from Rio

The developed world has yet to meet its targets on the reduction of carbon emissions

The 1992 "earth summit" in Rio de Janeiro threw down the challenge of global warming. This year's Berlin conference put the developed world on the road to course translating the very into practice.

The Global Environmental Facility (GEF) was converted at Berlin from a pilot to a fully operative project to help developing countries combat global problems such as climate change.

Projects funded by the GEF range from help to develop renewable energy sources to studies and programmes for reducing emissions from fossil fuels. GEF's initiatives range from a \$1m study of climate change in Argentina to \$2m spent on reducing transport emissions in Tehran and contributions to the development of renewable energy in Tunisia and Mauritius.

More ambitiously, Berlin committed industrialised nations to agree by 1997, when they meet again in Tokyo, on targets for reducing beyond the year 2000 carbon emissions from the burning of fossil fuels that are man's main contribution to global warming.

The focus has been on action by developed countries, which account for most of the damage caused so far. But while developing countries argue that they are entitled to the same opportunities for economic growth that created the present industrialised countries, there is an increasing realisation that they too will have to take action. The impact of any actions taken by the west in isolation could be wiped out by the increase in emissions in a country such as China which is expected to become one of the world's three largest economies in the 21st century.

"Everyone knows that the climate problem cannot in the long run be effectively addressed without action also in the developing world," says Dr Michael Grubb, a fellow of the Royal Institute for Interna-

tional Affairs in London and a lead author for the Intergovernmental Panel on Climate Change, the body set up by world governments to research the global warming problem. "One fundamental question on the table in Japan will be: how much does the industrialised world have to agree, given its moral and legal obligation to 'lead' efforts, in order for the developing countries to start negotiating about their contribution."

So far, the developed world has agreed to third world demands for financial assistance. As a result, Berlin launched a pilot project to encourage developed-world companies to transfer technology and investment enabling less developed countries to reduce their emissions.

Called joint implementation, this project stops short of the powerful incentives which the US government and many companies had said were needed to make the system work. These

The US is still impotent and the Europeans are immature

would have consisted of credits for companies to achieve emission reductions: achieved abroad against domestically-imposed targets.

Mr Clement Malin, a Texaco executive who headed the largest business delegation to the Berlin Conference, is one of many businessmen who argues that since climate change is a global problem "it does not make any difference where emissions are reduced". However, the credits were not included as a mandatory part of the pilot scheme but left to individual governments to decide whether they would devise such incentives on a national basis.

Such incentives are important because in addition to developing nations, western business is the other main constituency which has to be enlisted in the fight against climate change if it is to have any chance of success.

In the run up to tougher targets being agreed in 1997, seri-

ous doubts remain about the governments' own ability to deliver even those targets to which they are already committed: stabilising emissions by the end of the century at 1990 levels. Only a few countries such as the UK, and Germany, which started with a baseline of very high emissions from eastern Germany, are certain to meet their targets.

The US, which accounts for a quarter of this world's carbon emissions, is seriously hamstrung by a hostile Congress and powerful business lobbies, not to mention a lifestyle which militates against taxing the cheap petrol on which the widespread use of private cars thrives. Pressed to defend the Berlin agreement at Congressional hearings in Washington this summer, Tim Wirth, the US under-secretary of state who handles climate change negotiations, stressed that very little had been achieved at Berlin. A cross-party attack from hostile congressmen pressed him to agree that the fight against global warming would harm US competitiveness and allow developing countries a "free ride" on the cost-tails of developed world sacrifices.

"What we've done in the 1990-2000 phase is to take steps which economically make sense and happen to be benign for the environment. We have not in any way compromised or eroded our competitiveness," Wirth said.

He pointed to an environmental protocol signed with India last spring as proof that the developing nations were prepared to chip into the fight against global warming.

Dr Grubb, however, remains pessimistic about the ability of either the US or the European Union to make real progress in a process of which they are the titular leaders. "Most obviously the EU, which has been so strident in calling for further emission targets and time-tables, has yet to convince anyone that it has any idea of how to deliver on them."

Most problematic is the US, which, despite the highest per capita and total emissions in the world, seems the most frightened of constraints. To be blunt, in the politics of climate change, the US is still impotent and the Europeans immature.

Building designers rediscover fresh air

Continued from Page 1

erty consultants Jones Lang Wootton calculate that energy makes up more than a fifth of service charges for air-conditioned blocks. Only the staff-intensive costs of security exceed the 13 per cent slice in other buildings.

Inroads are being made into this outlay. Energy costs in air-conditioned buildings have edged downwards recently after rising almost 50 per cent in the last decade, says the J.L.W. annual report on service charges. But the minor scale of change implies there should be more to come.

"It is possible that savings by energy management measures have not yet been fully developed," says the study.

Another solution to ameliorating the impact of air-conditioning is being championed by some architects and engineers, however - giving it up altogether. This might also provide spin-off benefits, such as eradication of the increasing problem of "sick buildings", which appear to harm the psychological and physical health of staff.

The whole idea of "stepping back" to naturally ventilated buildings has been ridiculed by some as idealistic and impractical. Yet one of the world's leading study centres, the Building Research Establishment (BRE), is taking it seriously enough to construct a life-size energy-efficient office along these lines at its site near Watford in England.

This is a joint venture between the government-backed centre and leading industrial suppliers aimed at testing various energy-saving ideas to mould the model office block for the 21st century.

"This will be a naturally-ventilated building which will be energy-efficient and comfortable," says Mr Mike Cliff, the project sponsor. Just as important, it will be constructed in a way that can be widely copied. There are numerous examples of such buildings around the world but they tend to be one-off designs, often dismissed by developers and occupiers as too expensive or radical. "We will be using a number of innovative ideas and technologies

but the basic philosophy is to be simple," adds Mr Paul Davidson, of the BRE.

The aim is to cut energy consumption by a third but still produce practical space for both cellular and open-plan offices. It will be ventilated via fresh air coming in through wall ducts and windows and the stale escaping through rooflights, chimneys and vents.

Other innovations include underfloor water pipes which draw heat from boilers or cold from a borehole, depending on the season. Corrugations in the concrete floor will increase surface area and direct airflow.

Energy-efficient lighting will also be locally controlled, as will heat and air, an important psychological factor for staff. Even the computerised system controlling dampers will have manual overrides.

New buildings are less important than existing ones, however, particularly when development has all but ground to a halt across most of the western world. These require solutions to ameliorate costs of around £1bn a year for

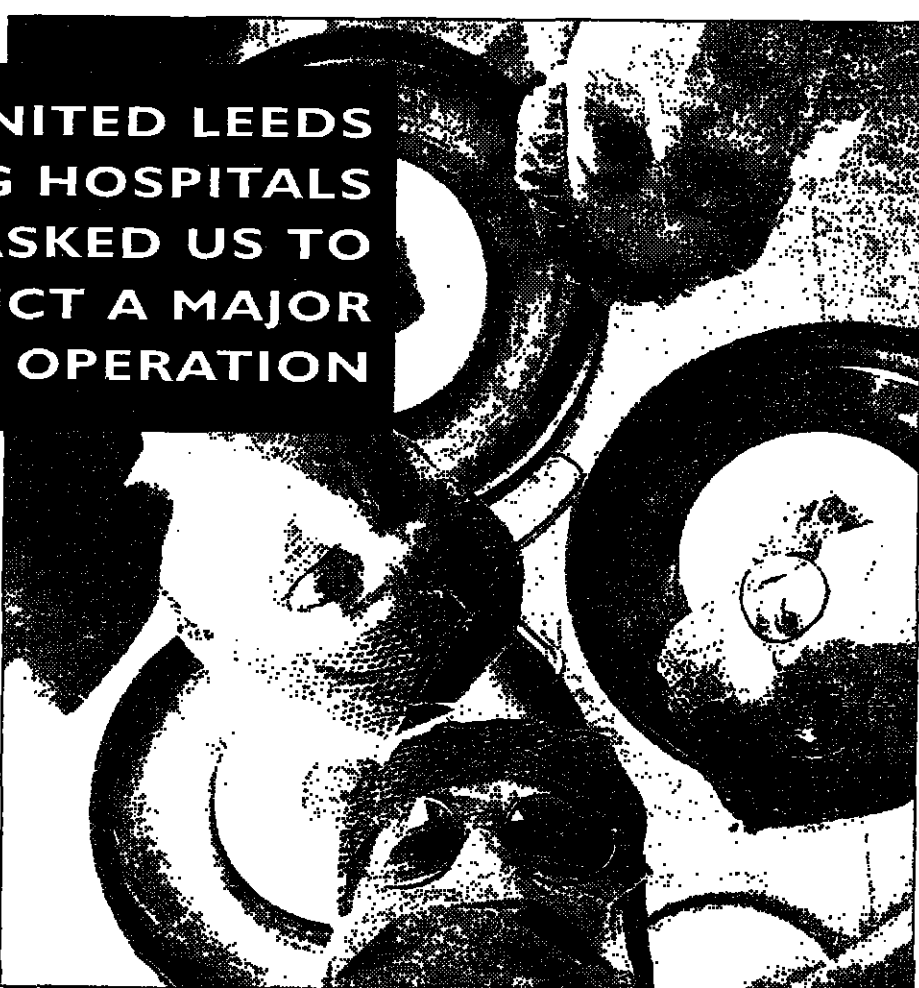
heating, lighting and ventilation. Offices alone are estimated to consume an eighth of the UK's bills once transport used by staff is included.

Good management could cut costs by a quarter, according to a series of studies by the BRE for the government's Best Practice awards. Many involve no capital expenditure. Up to a fifth can be cut from bills merely by turning off lights and computers when unused. The average PC consumes 800kw of energy a year and requires almost half as much again to disperse the heat.

There are many similar simple steps which can have a significant impact but the BRE saw little practical advice available to ordinary businesses. Two management aids have been developed to help. The Office Toolkit, designed by the BRE and PA Consulting Group and road tested by eight big sponsors including the BBC and Prudential, produced some remarkable results.

This uses a points system to grade different activities. Managers can therefore determine

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The view from Washington by Nancy Dunne

Consensus falls apart

The political right is waging a war of attrition against cash grants for energy saving

When the Republicans conquered both houses of Congress in last year's elections, the US Energy Department stood near the top of their "hit list". So did government regulation and "corporate welfare," which provides grants and subsidies for industry.

Almost a year later, all three - important motivators in the drive for energy efficiency - are still standing. However, they have been weakened by Congressional assault, and the rightwing will be back for another go next year.

Over the past 10-15 years, Energy Department grants have powered the development of many energy-saving technologies. These include improved fluorescent lighting; the sulphur lamp, which is cheaper than conventional lighting; energy-efficient windows; and new ceramic materials to make engines more efficient.

The department's grants have also been critical in improving the energy effi-

ciency of public buildings, low income housing and schools.

Critics of the department's conservation programmes say its commercial successes have been relatively few. The government, they say, should not be funding research which private industry can very well afford on its own.

President Bill Clinton came to office with a spotty environmental record. But he has been committed to the creation of government-business partnerships with the government helping to fund research on the technologies of the future.

The budget for energy conservation reflects the president's views. Spending rose from \$376m in fiscal 1993 to \$697m in fiscal 1994 and \$791m in fiscal 1995. Hundreds of grants have gone to companies and states, to help fund basic research or encourage commercialisation of successful developments. In recent months, grants include:

- \$5m in financial assistance to states to update and implement the energy efficiency provisions of their building codes. The department said this is part of an effort to save American consumers \$38bn over the next 15 years.

- \$6.2m in three cost share wind turbine power plants in Nebraska, Wyoming and Iowa. Industry's share is \$52m.

- A \$783,000 contribution to a \$51m fund in Boston to finance energy and water efficiency improvements in 5,000 multi-family housing units and commercial space.

- A \$419,000 grant to the Texas Centre of Superconductivity at the University of Houston for a \$1m programme to develop advanced technology which uses energy-saving high temperature superconductors in electricity generation, delivery and use.

- Grants ranging from \$50,000 to \$200,000 to Indian tribes in 10 states to develop solar, wind, biomass and hydroelectric resources and install energy efficiency improvements in tribal community buildings.

Until the "Republican revolution," schemes like these commanded bipartisan support. The Energy Department's budget for conservation measures has been steadily rising since the days of the Bush Administration. From \$38m in fiscal 1983, funding jumped to \$791m in fiscal 1995. The programme is expected to take a

cut in 1996 to \$553m, well below the \$824m sought by the Clinton Administration.

A 30 member panel of energy specialists from academia, environmental organisations and private corporations has warned against cutting funding below its 1995 level. Private industry, it said, is reluctant to sponsor research projects that last longer than three to five years out of fear that they will not receive enough return on investments.

The committee, appointed by Mrs Hazel O'Leary, the Energy Secretary, said that the department's investments in R&D had helped the US keep pace with international competition in energy technology.

In a report released in June, the panel said Energy's investments in photovoltaics, the technology that generates solar energy, have helped the US industry become the leader in the world market in sales of solar cell modules. The US has 37 per cent of the market, worth about \$300m.

Its investments in windows, which feature low emissivity coatings that admit sunlight while blocking heat radiation, have been adopted by private industry. This is now expected

THIS FUEL TAX MEANS WE WON'T BE ABLE TO AFFORD OUR ECOLOGY PROGRAMME



to generate an annual \$40m in sales.

That the Republican Congress has cut less than it threatened has been "a triumph of the pragmatists over the ideologues," according to Mr Howard Geller, executive director of the American Council for an Energy-Efficient Economy, a nonprofit organisation.

"In general they've continued research and development for programmes that have strong private sector backing, over the objections of the ideologues that don't want the government to help the private sector," Mr Geller said.

However, he is concerned that the Republican preference for cutting programmes for the poor has shown itself in the area of energy efficiency. Funds to pay for insulating the homes of the poor have been slashed by more than 50 per cent to \$10m.

According to the Sustainable Energy Budget Coalition, a group of state energy officials and conservationists, the Weatherisation Assistance Programme has helped 4.4m households save about \$100m a year in fuel costs. The projected 1996 cuts will mean that 60,000 homes will not get new insulation and repairs through

local community groups.

Mr Geller also worries about the Republican attack on regulation. For several years the US government has used standard-setting in appliances and businesses to push energy efficiency. As a result, most refrigerators use two-thirds less electricity than those built two decades ago. The standards already adopted are expected to yield consumers \$150m in savings over a 30 year period.

"Some companies want to see legislative changes so the Department of Energy can never issue minimum standards," Mr Geller said. That debate has yet to be held, but in the meantime he expects Congress to order a one year moratorium on new rules.

Demand-side solutions are also at risk from the ongoing deregulation of utilities. For years state regulatory commissions have pressured utilities to adopt efficiency programmes. These initiatives have ranged from eliminating discounts for big power users to cash rebates for efficient appliances, low interest loans for insulation and industrial retrofits and rebates for the purchase of solar water heaters.

To enlist utility support, many states compensate utilities for profits that would be lost from reduced sales by allowing them to incorporate the costs in their rate bases. According to the Workwatch

Institute, utility investment in efficiency rose from less than \$900m in 1988 to about \$2.5bn in 1993. Such programmes save electricity at an average cost of 2.1 cents a kilowatt-hour - half the cost of building and operating even the least expensive new power plant.

About half of utilities have had good programmes, said Mr Geller. The other half have been dragged to energy saving "kicking and screaming".

Under siege from the independent power producers, utilities are downsizing, merging and laying off personnel. Energy savings programmes may be among the first non-essential costs to fall by the wayside.

Mrs O'Leary has sought to spur the growth of the energy efficiency industry by promoting exports. On high profile trips to India and Pakistan she included small innovative energy service companies and renewable technology developers along with utility and independent power producers.

On a trip to Italy she signed an agreement to expand cooperative programmes to encourage joint experiments, the exchange of scientific and technical information and for joint research and development projects. In Costa Rica in June, she witnessed the signing of accords guiding several renewable energy projects in Honduras.

European Union policies by Lucy Piskett

Caught on the rebound

Britain and other EU states have slowed compliance with global emissions targets

Energy efficiency measures are becoming increasingly important if the European Union is to meet its commitments to reduce carbon dioxide emissions.

At the Rio Earth Summit in 1992, the EU pledged to stabilise its CO₂ emissions at 1990 levels by the year 2000. The European Commission planned to meet this by proposing a carbon-energy tax, energy efficiency measures, and promoting renewable energy sources.

Three years on, the carbon-

energy tax is still struggling against opposition from national governments. The original idea was for a tax levied 50:50 on the carbon and energy content of fuels, starting at \$3 a barrel of oil equivalent, rising to \$10 barrel by 2000. But this was eventually dropped late last year, after intense opposition from the UK, which opposed the principle of EC-wide taxation, and poorer EU members, such as Spain and Greece, who feared the tax would hamper their industrial development.

Under EU rules, taxation measures have to be unanimously approved by all national governments. Undaunted, the Commission reissued an amended version of the tax in May this year. As

a compromise, this proposal suggested an initial four-year period when the tax could be voluntary. In 2000, however, the Commission would again issue plans for a harmonised EC-wide tax.

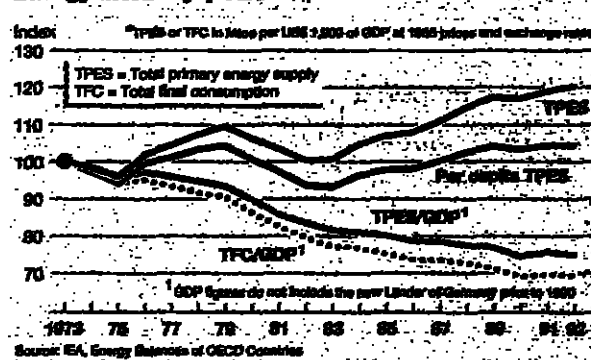
But this plan, presently being discussed by ministers, appears equally doomed. The UK, which is relying on the switch from coal to gas in power generation to cut its CO₂ emissions, still refuses to endorse the tax, while the new version does not assuage the fears of the less-industrialised countries. Consequently, the burden of meeting the EU's CO₂ target is increasingly falling on energy efficiency measures and promoting renewable energy.

Energy efficiency has had its

own problems over the years. The Commission's key initiative in this area is the five-year SAVE programme, which began in January 1991 with a budget of Ecu35m. SAVE (an acronym for Specific Actions for Vigorous Energy Efficiency) was proposed to help meet the EU's aim of improving the efficiency of final energy consumption by 20 per cent between 1988 and 1995. This target was set after the 1988 fall in oil prices, to stop cheap energy prompting a rise in consumption.

But the programme was roundly criticised by the European Parliament and environmentalists for being watered down from its initial aims. At the heart of the original SAVE programme were 13 directives

Energy Intensity, OECD



legislating on all aspects of energy efficiency, including industrial energy audits and the thermal insulation of buildings. But instead of these binding pieces of European legislation there finally emerged from the Commission a catch-all directive calling on

national governments to draw up energy-saving plans in these and other areas. The precise content of such plans was left vague. In between proposal and implementation, SAVE had been hit by subsidiarity - the drive for legislation to be devolved to

the lowest possible level. This principle then severely limited the Commission's power to legislate for the EU as a whole. Much hope is now invested in the few pieces of SAVE legislation that have slipped past the subsidiarity net, including one which some environmentalists believe will be a crucial test of member states' commitment to cutting CO₂ emissions.

This measure, when approved, would oblige electricity and gas distributors to draw up reports properly evaluating demand-side as well as supply-side measures when it comes to meeting future consumer needs. For example, it might be cheaper for an electricity distributor to supply its customers with energy efficient lightbulbs rather than buy in more power from a generator. The aim is to promote a shift in attitude among electricity and gas companies by encour-

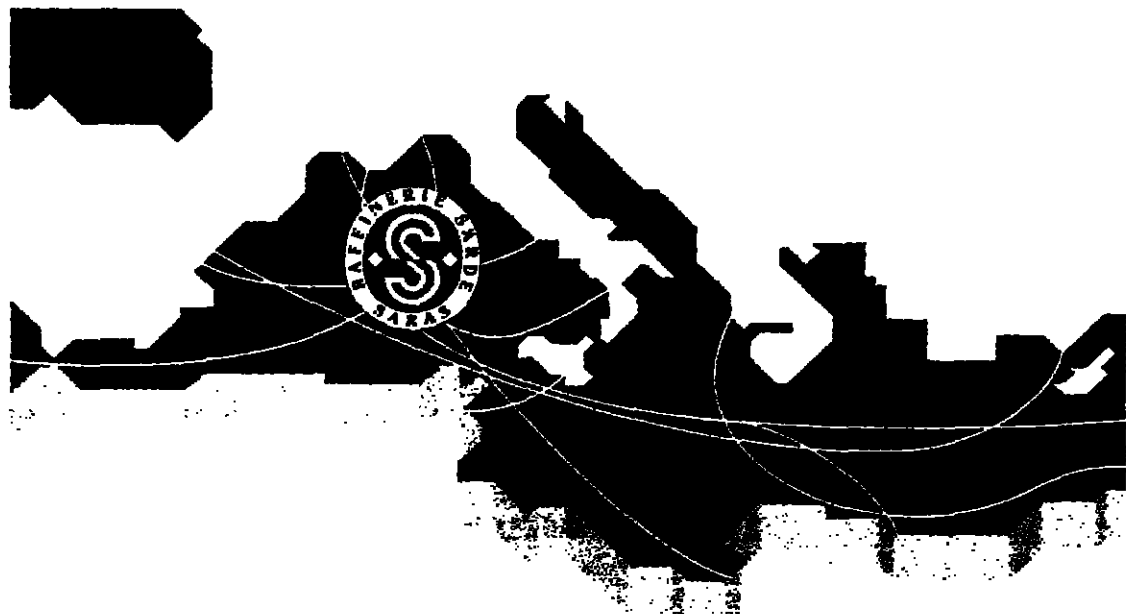
aging them to see the economic potential in reducing demand, rather than making their money by supplying a commodity. It would be up to national governments to ensure that existing energy regulations allowed distributors to make money on such demand-side measures.

The Commission estimates that "aggressive" demand-side management could have dramatic results. Electricity demand could be cut by 10-20 per cent, which would reduce CO₂ emissions by more than 100 tonnes a year; cut primary energy consumption by 4.5 per cent; and prevent the need to build an extra 40,000-80,000MW of new generating capacity.

But the plan is vigorously opposed by the electricity and gas industries, who view it as

Continued on next page

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4 ENERGY EFFICIENCY

Germany: by Sara Knight

Challenge from the left

The debate over how to cut Germany's carbon fuel pollution is warming up

Germany is among the most environmentally and energy conscious nations in Europe. In 1993, industry's energy consumption in western Germany was only 32 per cent of that in 1980. Since reunification in 1990, east Germany, too, has been progressing rapidly.

However, the World Environment Conference in Rio de Janeiro in June 1992 marked a turning point. The comfortable pace of change over the previous 30 years had been set largely by investment in better production processes rather than by specific energy cutting measures. After Rio this was no longer considered enough.

A stronger political impulse was given to efforts to raise energy efficiency, cut consumption and reduce pollution. It was spearheaded by the Greens/Bündnis 90 party, flanked by a strong environmental movement. (At the Federal elections in October 1994, it won 22.2 per cent of the vote, becoming the third largest political party in Germany after the CDU/CSU and the SPD.)

Campaigning for fiscal reforms to promote energy efficiency, the Greens have suggested an energy/CO₂ tax accompanied by cuts in social insurance contributions, income and company taxes. This was followed by similar, though less radical, ideas from the Social Democrats (SPD), the main opposition party, and the liberal Free Democrats (FDP), junior partner in the coalition government. Previously, the CDU and SPD had been prepared to discuss these ideas only in a general European framework.

However, with the appointment of the forthright Oskar Lafontaine as the SPD's new leader, Chancellor Helmut Kohl's party is now confronted by a loose alliance of the SPD and Greens which could leave him far behind on the environmental front.

Although the government

DEREK IS SAVING THE COMPANY THE COST OF HEATING HIS OFFICE BY WORKING FROM THE SEYCHELLES



has adopted around 100 individual measures to protect the climate - ranging from incentives to use energy-saving bulbs to a district heating support programme in east Germany worth DM300m per year - it has not yet convinced anyone that it will reach its official target of cutting Germany's CO₂ emissions in the year 2000 to only 75 per cent of their 1990 level.

On November 22, the ruling coalition held an inconclusive meeting convened to discuss this and related problems. The Free Democrats, which have plenty to say but less political clout, favour a climate protection tax and are prepared to adopt it whether or not other European countries follow suit. But its senior coalition partners, the CDU and CSU, are not yet willing to go beyond proposals to replace a car tax with a tax on exhaust gas emissions from 1997. The Bavarian-based CSU, especially, objects to references to a later introduction of an energy tax despite pressure from some of its grass roots supporters.

The government's aversion to an energy/CO₂ tax is due to two main factors. Firstly, it fears a popular backlash at any increase in the tax burden. The CDU/CSU is sceptical about proposals to balance the move by reductions in other taxes, as proposed by the FDP, the SPD and the Greens. If the energy

tax led to lower energy consumption, the revenue from this tax would promptly fall.

Secondly, a radical energy tax stirs fears about the health of Germany as an attractive location for industry, known popularly as *Standort Deutschland*. The supporters of an energy/CO₂ tax claim they are fully aware of this risk, and have further proposals to mitigate it. They also note that the tax would hit home owners.

For its part, German industry vehemently resists higher energy taxes, claiming they would undercut finance for the very technology which would bring improved higher energy efficiency. Industrialists insist that a voluntary solution is better and quote their statement on climate protection made last March shortly before this year's Berlin climate change convention. It promised that German industry would reduce CO₂ emissions and/or energy consumption by up to 20 per cent by the year 2005 compared with 1987.

However, six months later German industry had still not shown in detail how this promise would be kept. At the end of October, Erhard Jauck, permanent under-secretary of the Federal Environment Ministry, warned that the government would use fiscal or legal methods to ensure that the promise would be kept. There is also some scepticism

over promises by car manufacturers to reduce fuel consumption. Volkswagen, BMW, Mercedes Benz and Porsche pledged three months ago that by the year 2000 they would be marketing diesel cars with a fuel consumption of just 3 to 4 litres per 100km, which petrol-driven cars do not yet match. Experts point to Mitsubishi's faster progress on petrol driven cars and wonder whether the German industry is doing all they can.

The Federation of German Industry (BDI) and the German electricity utilities association (VDEW) defend their energy saving record with a wealth of statistical information: for example, industry has reduced its total energy consumption from 95.6m tonnes of coal equivalent in 1973 to just 72m in 1993 and over the last 30 years, energy intensity by industry had halved.

The power utilities umbrella body, the VDEW, says that since the mid-1980s gross electricity consumption has been uncoupled from economic growth. Between 1985 and 1990, west German GDP increased by 3.4 per cent but gross electricity use rose a mere 1.8 per cent, and from 1990 to 1994, electricity use rose by mere 0.4 per cent although GDP rose 1.8 per cent.

The improvements began in the power stations themselves. Between 1980 and 1993, average gross efficiency in electricity generating plant improved from 30.5 per cent to an admittedly still modest 38.8 per cent while transmission losses were almost halved from 8.3 per cent to 4.6 per cent of gross electricity consumption.

Use of district heating increased eight-fold over the same period while specific electricity consumption of household "white goods" and implements fell between 1970 and 1993 by 40 per cent to 60 per cent. Since the mid 1980s the average consumption of electricity per household has stagnated despite the introduction of a multitude of new electric gadgets. Or viewed another way, the electricity motto seems to be working: "Ever less electricity consumption per application... but ever more applications using electricity."

Britain's Energy Savings Trust: by Leyla Boulton

Portrait of a catalyst

The energy saving pump-priming body has to make do with a modest £25m a year

Recent evidence that Britain can after all meet the developed world's year 2000 targets for stabilising carbon emissions in the fight against climate change has softened the pressure for tough action on energy efficiency.

No clearer illustration of this can be found than in the mixed fortunes of the Energy Savings Trust, a product of the Tories' last election manifesto.

The organisation was originally set up by the government to choose projects in which to sink funds to be raised by privatised gas and electricity utilities for energy efficiency purposes.

It aimed that by 1998 the trust should be spending £400m a year on such projects. How-

ever, a few years after its launch, the Energy Savings Trust has no chance of meeting a target which it says has "simply disappeared". It has just recently seen its annual budget increase to a meagre £25m.

Available is only thanks to the good will of Ofwat, the electricity industry regulator, which has agreed to impose an energy efficiency levy on the companies it supervises. The levy, which is not nearly as short of ideas as of money, has found 143 projects to finance in just over a year and a half of cooperation with Ofwat. "For every pound raised from the levy, consumers benefit to the tune of £5.50," says Dr Eoin Lees, the EST's chief executive.

Examples of such projects involve giving away free light bulbs to old age pensioners who agree to receive free advice on how to make more efficient use of energy supplies.

This includes such basic things as helping them operate thermostats and not over-filling electric kettles.

On the heavyweight end of the spectrum, EST has also helped fund combined heat and power housing projects which basically enable users to generate heat and electricity simultaneously.

Under one such project it covered just one fifth of the costs of a £120,000 CHP system for a London housing association which raised the rest of the money itself.

The government in turn recently announced plans to give EST another £25m from next April. However, EST has met a stone wall of resistance from Ms Clare Spottiswoode, the director general of Ofgas, the gas industry regulator, who unlike her predecessor has balked at cooperation with EST. The previous director of Ofgas had pledged to raise £125m a year for the EST.

One casualty of poor rela-

tions with Ms Spottiswoode is a £1m pilot project for which EST would like to enlist the support of British Gas. The idea is to lend households money to insulate their lofts and enable them to repay the loan with consequent savings on their gas bills. Says one EST official: "British Gas does not want to upset the regulator. The regulator shows no enthusiasm for energy efficiency so why should British Gas?"

While reporting that he has become somewhat easier over the past year, Dr Lees warns that while the "pressure is on" for the year 2000, problems will return after that date, when developed nations are expected to agree new targets for a net reduction of carbon emissions. "Looking to the long-term it is clear that we are going to have to do something and that energy efficiency will be an important part of the portfolio of measures we will have to adopt."

UK legislation: by Leyla Boulton

Squeeze on the town halls

A law passed in June was a landmark in British attitudes to energy conservation

A cruise-ship along the Thames this summer was the venue for a party to celebrate the latest UK addition to a mixed bag of energy efficiency policies.

The Energy Conservation Bill, proposed by a back-bench MP, was initially opposed by the government until it decided belatedly to jump on to this particular environmental bandwagon. The law was passed by parliament in June after the government dropped objections to a plan it initially described as threatening an expensive intrusion from would-be "thermal police".

Mr Andrew Warren, head of the UK's industry-sponsored Association for the Conservation of Energy which played a key role in mobilising support for the bill, said it "turns every local council into an energy conservation agency". Hosting the river-boat party, he was particularly pleased at the way "middle England had been mobilised through grass-roots organisations" into writing letters to their MPs to support the legislation.

The law requires 435 local authorities around the country to compile as a first step an inventory of the different types of public housing and heating systems on their territory.

Following on from this, they will have to come up with suggestions on how to make 30 per



Electricity and steam for Nestlé's 140-acre site at York, England, which makes Black Magic, Kit Kat, Smarties and other popular brands, are generated by this 23m mini power station designed, built and run by BP Energy

cent savings in energy consumption. Local authorities are supposed to produce the surveys, which are expected to cost around £50,000 apiece, by 1997. Thereafter it is up to them to decide what action to take to follow up on their suggestions. It is not yet clear how much of an incentive they will have to do anything.

But after being forced to back down on plans to increase VAT on fuel for homes, the government has little choice but to try and stress voluntary incentives for householders to

increase energy efficiency. One compelling reason for such measures is an estimate that one third of UK householders live in homes they cannot afford to heat. "Heating grants are the wrong way to tackle energy efficiency," adds Mr Warren. "All they do is subsidise utilities."

A wider reason is Britain's undertaking, with other developed nations attending the Rio "earth summit" three years ago, to stabilise carbon emissions at 1990 levels by the year 2000. This target is the first

step in international efforts to combat global warming, a phenomenon blamed on carbon emissions from the burning of fossil fuels. According to Mr Warren, a quarter of man-made carbon emissions comes from homes, a quarter from other buildings, a quarter from industry, and a quarter from cars.

"The saving of energy is a major part of the post-Rio strategy. It's a double win situation. You are saving money as well as helping the environment," he says.

CASE STUDY HOW COUNTRIES TEAM UP TO CUT CARBON EMISSIONS

Exercise in international mutual aid

The World Bank has launched collaborative projects in Mexico and Poland, both of which would normally be at the receiving end of a plan to combat global warming.

The idea of joint implementation, launched at the Berlin conference on climate change last spring, is for companies or governments in the developed world to implement projects to reduce greenhouse gas emissions in another country and to get credit for those reductions against their national obligations. The incentive would be to achieve reductions at lower cost than would be possible at home.

But despite pressure from the US government and businesses, the crucial

principle of getting credits for reductions was left out of the pilot scheme agreed in Berlin. The whole process is to be reviewed by the end of the decade, in order to "take a conclusive decision on the pilot phase and the progression beyond that."

The World Bank says the aim is "to clarify some project level considerations that may have implications for the choices governing joint implementation".

Poland and Mexico, both heavily dependent on fossil fuels for their energy consumption, rank among the top 15 greenhouse gas emitters in the world.

The Mexican project, at a cost of \$23.5m, will place 1.7m

compact fluorescent lamps at subsidised prices in homes in the cities of Guadalajara and Monterrey over two years.

The aim of the project is to demonstrate the energy efficiency of these lamps and develop the Mexican utility's ability to manage energy demand, not to mention a lowering of its emissions.

The World Bank says the project is structured to ensure that the utility can recoup its original investment in the project and extend such demand side management programmes to other regions and other technologies.

The gain for a foreign party such as Norway, which contributed \$3m to the project, is a cheaper way of reducing greenhouse gas

emissions than squeezing already low domestic emissions by heavy taxes on fossil fuels.

The \$4.8m Poland Coal-to-Gas Conversion Project, more than half of which is being financed by the Global Environment Facility and \$1m from Norway, would convert to gas-firing a number of coal-fired boiler houses. Between them, the Mexican and Polish projects involve marginal costs of reducing carbon dioxide emission gases of between \$35 and \$100 per tonne of CO₂ - which compares with costs of at least \$112 per tonne for an "investor" such as Norway.

Leyla Boulton

Europeans drag their feet

Continued from page 3

unwanted interference in their markets, and say it will put both gas and electricity at a competitive disadvantage compared with other fuels.

Andrew Warren, director of the European Association for the Conservation of Energy (EuroACE), argues that, on the contrary, the measure is the last chance to change attitudes via the marketplace, by allowing utilities to make money out of selling energy services, rather than the fuel itself. "If we can't deliver on this in Europe, the only other option left if governments are serious about dealing with climate change is command and control measures", he says.

Another SAVE directive in the offing would compel manufacturers to ensure that domestic refrigerators and freezers meet minimum energy

efficiency standards. Initially, their efficiency should be upgraded by 10 per cent, with standards reviewed three years later. This could save 40 terawatt hours of electricity consumption by 2020. These standards could also be tightened by the European Parliament, which is insisting on doubling the energy efficiency targets, and halving the time-table to achieve them.

A third planned directive to promote combined heat and power is presently stalled pending the outcome of the Commission's moves to liberalise Europe's electricity markets. Despite SAVE's patchy record, promoting energy efficiency is recognised as one of the few instruments available at EU level to tackle the CO₂ problem by 2000. In June this year, announcing a new, enlarged follow-up to SAVE,

the Commission said: "SAVE 2 will be a major (perhaps the major) strategic initiative for the attainment of the Union's CO₂ objective."

With SAVE 2, due to start in January 1996 and run until December 2000, the Commission has taken a different tack. As the climate is still not right to draw up new legislation, SAVE's successor has been given a larger budget - £61.50m - to concentrate on promoting energy efficiency at the grass roots level. "Legislation is an easier way to change people's behaviour, but if you can't do that then you must go down to the level of the consumer," said a Commission official resignedly.

The money will be used on pilot actions to promote energy management in regions and cities, monitoring energy efficiency progress at EU and

national level and exchanging information. Over the life of the programme, the aim is to reduce final energy use by 5 per cent, saving 180m-200m tonnes of CO₂ emissions.

Stellar results are expected from promoting renewables. The EU's Altener programme aims to increase the contribution of renewable sources of energy, such as wind and solar, from 4 per cent of overall energy demand to 8 per cent by 2005. This would reduce CO₂ emissions by a total of 180m tonnes. Under Altener, which runs from 1993 to 1997, £400m is available to promote renewables via studies, pilot projects and information networks. The programme will be reviewed early next year, and is likely to be extended.

Lucy Plaskett is editor of FT newsletter EC Energy Monthly

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Housing in Britain by David Lawson

Coldest homes in the west

Better standards have been imposed from above. Now the pressure comes from the public

The Scandinavian banker and American broker were scoring points off each other at a City of London cocktail party about who knew more about the UK. Esoteric details such as the sharpest futures trader, the eccentricities of a fund's investment director and the best place to buy fish were tossed back and forth.

But a truce was declared over the English word every visitor learns first. Not hello or goodbye. Not please or thanks. "Cold," they said in unison, breaking into laughter. "You have the warmest beer and the coldest homes in the Western world," said the American, only half-joking.

Desperate efforts have been made to solve the half-half equation. The government regularly updates energy efficiency standards builders must meet for housing. The latest set of building regulations, which ironically came into

force during the hottest summer in decades, aims to add another 20 per cent to efficiency through tougher standards for insulation, glazing and heating appliances.

It all seems typically British to outsiders, however. Homes in mainland Europe have been built to these criteria for decades, and American timber-frame buildings traditionally leave UK construction methods cold. Techniques such as super-insulated floors and tight-fitting windows have been tried - and quietly dropped - by big builders more

concerned with keeping costs down to attract buyers.

One school of thought attributes such low standards in 90 per cent of UK homes to British stoicism. Another points to the cheap fuels enjoyed by a small island rich in coal and natural gas. Certainly the recent drive to more efficient homes has been driven more from above than by consumers. Housing makes up 30 per cent of the national fuel bill and buildings produce more global-warming CO₂ and ozone-depleting materials than vehicle exhausts. It was inevitable

after the world summit in Rio that the governments would have to lead the way towards limiting this damage.

But efforts have also been made to stimulate consumer interest. Another argument for buyers' apathy is that they have not been able easily to measure the relative merits of the property they are offered. Every new home now carries a SAP (Standard Assessment Procedure) rating developed by the Building Research Establishment, which demonstrates energy efficiency and general impact on the environment.

Extra pressure to cut costs has also come from the imposition of VAT on fuel, driven through by the government despite the risk of mutiny by many of its own supporters.

But relatively little is happening to build on such measures. "Buyers simply won't pay for the extra savings achieved by going above the government minimum," says one sceptical volume builder who turned his fingers when experimenting with extra-efficient homes. Buyers swarmed to an inferior, but cheaper, neighbouring development and he had to cut prices to com-

pete, leaving the builder to meet the extra costs.

These companies are already building 21st century homes, as the bricks and mortar will be standing for at least the next 100 years. They are undoubtedly more efficient than even a decade ago because of rising government standards, but does this reluctance among buyers mean homes will always fall below their potential?

Evidence is emerging that occupiers are beginning to demand higher standards, however. David Holliday, chief executive of Admiral Homes, builds 700 homes a year, all to much higher standards than the minimum, and says he has little problem selling even in the current dull market.

"We attract people who have made a point of looking at running costs," he says. They are willing to pay between 1,000 and 4,000 for various levels of extra efficiency on homes averaging 110,000. Two large 2,500 sq ft homes in a development near Chippenham, Wiltshire, which claim to be the first in the country to hit a perfect 100 SAP score should cost just over 800 a year for electricity and



oil - half the outlay on a home built between 1930 and 1950, says Admiral.

The rest of the development, aimed at scores of 80-plus, will be the focus of a government campaign launched on the site next week by Construction Minister Robert Jones to encourage other builders to raise their standards.

Growing public awareness of running costs will help push that campaign from the bottom upwards, says Mr Holliday. He says that the first two homes in the scheme were sold within a week. Achieving the 100 rating added £3,300 to Admiral's asking price, but Mr Holliday points out that this was less

than 2 per cent of the total and should be recovered through energy saving in under six years.

Buyers in general often remain blind to such costs. Most have their calculations on monthly mortgage costs, which are geared up with every £1,000 on the initial price, according to lenders. "The new SAP ratings could make a difference, however," said one building society adviser.

Demographic changes may also produce a swing to efficiency. The population is ageing, and couples such as Tony and Peggy Fugh are moving into retirement homes where warmth is vital. They part-ex-

changed a bungalow in Huddersfield for a purpose-built flat in Hampshire and found fuel bills £260 a year lower.

A milder climate in a smaller home may be one reason, but McCarthy and Stone, the builder, also thanks energy-efficient designs. The more buyers there are in this age bracket, the greater the impact on energy consumption.

Overall design principles are unlikely to change much further as we move into the 21st century because of the limited scope left for development of materials and structures, says David Holliday. Perhaps steel frames, which are suited for installing insulation as part of the structure, may come in, but there will be more scope for advances in appliances, which already make up half the energy used in our homes.

"Zoning could be a major benefit, setting heating levels differently for different rooms. That would introduce insulation into interior walls," he says. This may have little impact on shivering visitors to the UK, as the vast majority of homes were built in more maochistic times. They can hope, however, that increasing awareness of running costs will spill over to the second-hand market, forcing a general uplift in living standards. Perhaps the government can then attend to the warm beer.

Combined heat and power by David Green

The tide has begun to turn

Several diverse factors may have started to improve the prospects for CHP in Britain

The proportion of the UK's electricity generated by combined heat and power - in which waste power station steam is used for heating purposes - has risen steadily during the 1990s to today's figure of something over 5 per cent.

According to the latest statistics from the DTI a total of 3,200MW of CHP plant was being used at 1,250 sites, with some 300-400MW of new plant under construction. So, while the UK figure is close to the European Union average of 7 per cent, there is a long way to go to challenge the leaders - the Netherlands and Denmark, both of which generate around 30 per cent of their total electricity needs from CHP.

But the differences between these two countries reveals both where the UK lags behind and where the long-term potential for growth lies. While three quarters of Dutch CHP systems feed industrial sites, nearly all the Danish CHP plants are operated by municipal utilities to heat cities via large-scale community heating systems.

In the UK around 80 per cent of CHP capacity is used at just 60-odd industrial sites with schemes larger than 10MW, and the community heating sector is relatively undeveloped.

CHP has been very topical in recent years, but the technol-

ogy is almost a century old and the use of mainly coal-fired CHP by some of Britain's energy-intensive industries is well established. However, this use of CHP fell with the decline of heavy industry in recent decades, hitting a low point of around 2,000MW at the end of the 1980s.

What revived the technology was a mixture of new levels of environmental awareness - CHP's inherently high fuel effi-

ciency means lower emissions as well as lower cost energy - and the emergence of new methods of financing plant which followed privatisation of much of the electricity industry in 1989.

The lifting of the European ban on using gas in power stations meant that high efficiency turbine-based CHP plant began to replace the existing less efficient coal-fired capacity.

The Government set a target, as part of its 1990 White Paper on the environment, to establish 4,000MW of CHP by the year 2000. In 1993, the UK raised the target to 5,000MW as part of the commitments it made at the Rio de Janeiro Earth Summit.

To avoid losing business to do-it-yourself CHP operators the large generators reversed the old CEGB position of opposing CHP and joined other energy specialist companies in supplying the technology to industry. Many of the regional electricity companies moved into supplying small-scale, packaged CHP plant for buildings.

At the same time, CHP suppliers recognised that high capital costs for CHP plant were likely to form a significant barrier to its take-up and established a range of alternative financing arrangements to help potential customers receive the benefits of CHP. These arrangements have since broadened into what is now part of the newly emerging energy services sector - the efficient provision by a single party of a fully-integrated package of useful energy services, rather than just raw fuel or a stand-alone energy service.

A key part of the energy services approach is that a third party energy specialist takes on a number of the funding,

design, installation, ownership, operation and maintenance aspects of energy plant at or close to the user's premises.

Several other barriers remained, though, and the CHP Association has fought a series of battles to see the 1989 legislation amended to ensure that local CHP operators are able to compete with centrally-generated power.

This culminated in moves by the then President of the Board of Trade, Mr Michael Heseltine, to reduce the regulatory burden by exempting many more CHP operators from holding an electricity supply licence and thus charging the nuclear levy on exported power.

However, even allied with these changes, the development of CHP is still highly dependent on the wider economic conditions such as the price of fuels, the relative market prices of heat and power, and interest rates, not all of which have been helpful in recent years.

While CHP has made great strides in the industrial and buildings sectors, the UK has made little progress towards



Amsterdam's business centre: combined heat and power plants provide 30 per cent of Dutch electricity

the sort of city-wide community heating systems which supply most homes in Paris, for instance, with heat. However, the situation may be changing.

Major barriers in the UK have been the poor performance of a wave of district

heating systems installed as part of the council housing boom of the 1960s and 1970s, without adequate long term provision for their maintenance or renewal, coupled with the constant desire of the Government to restrict local authority capital investment.

Now, with local authorities in the vanguard of thinking on sustainable development, the 1998 deregulation of domestic energy supplies looms and with moves to bring private sector capital into public/private sector energy ventures, levels of interest in community

heating are higher than ever. Local authorities are looking at new ways to move, with private sector partners, into energy supply and that interest is now being translated into practical action.

Established large-scale community heating systems in Nottingham, Sheffield and Southampton are being expanded, and several city councils, most notably Glasgow, Manchester and Birmingham, are planning to establish new large-scale schemes. Recent changes to the Non-Fossil Fuel regime in favour of CHP and community heating will clearly aid this trend.

Eventually, for CHP to reach its full potential in the UK, the legislative and regulatory environment would have to recognise and reward both CHP's particular environmental benefits, and the benefits of all forms of locally-sited generation plant in reducing electricity distribution costs.

However, development of new city-wide community heating schemes, together with the continuing expansion of CHP for industry, would begin to move CHP's status in the UK towards that which it enjoys in some other countries.

David Green is a DTI adviser and director of the Combined Heat and Power Association

ANALYSIS by ANDREW WARREN

Managers' role becomes blurred

Hundreds of British energy managers gather in Birmingham, England, today to hear about changes in the UK energy efficiency scene.

They are participants at the UK's national energy management conference and exhibition, an annual event launched in the energy crises of the 1970s.

One of the most notable developments, however, has been the change in emphasis of the participants' own function from efficient plant management to energy purchasing.

Most of the presentations at the main conference concentrate on how best to purchase energy rather than how to use it most effectively.

Dr Glenn Brookes, director of the Energy Systems Trade Association who has organised the conference, says: "It's an energy manager's job to reduce costs for his employers by cutting the energy bill. At present, though, many find they can save more by shopping around for cheaper fuel than by investing in conventional energy schemes."

Established energy management firms have themselves recognised this change in function and now concentrate more on advising clients on obtaining the best deals. "Our customers are much more aware of the opportunities available in purchasing, and therefore demand from us far more emphasis on purchasing than on engineering efficiency," says Brian Chamberlain, managing director of TM Consultants.

The managers whose role has not changed are those employed by the government as regional energy efficiency officers, whose role is to give practical advice on energy saving, including help provided by the government. This includes help towards consultancy fees under the

government's new Small Company Environmental and Energy Management Assistance Scheme.

Under their licences, both British Gas and each electricity distributor is duty bound to provide basic energy saving advice; for those worried about the objectivity of advice from such sources, there are 30 advice centres funded by the Energy Saving Trust.

Meanwhile, energy managers have already shown their value, especially those employed in energy intensive industries. Dr Brookes says: "It would be a shame if a once-off opportunity to do price bargaining killed off such hard-won expertise."

Such worries were one of the reasons for setting up an Energy Efficiency Accreditation Scheme two years ago. It provided the first opportunity for an organisation's achievements in energy efficiency to be independently assessed under nationally-applied rules. It measures commitment and performance against three criteria:

- management policy and reporting structures;
- investment (both actual and planned) in efficiency measures;
- demonstrated improvement in energy efficiency.

To date 37 companies have passed these three hurdles to become accredited as generally energy-efficient organisations.

The energy managers at these companies can claim to have thereby demonstrated their skills as engineers and not just at beating down the price of fuel in what is currently, though not necessarily indefinitely, a buyers' market.

Andrew Warren is director of the European Association for the Conservation of Energy

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6 ENERGY EFFICIENCY

■ Motor car design: by John Griffiths

Fancier cars wipe out fuel gains

Loading cars with ever more gadgetry is neutralising the great advances in engine efficiency

A few weeks ago Cosworth Engineering, the Vickers-owned engineering consultancy and high-performance engine maker, announced an agreement with Dr Dan Merritt and Coventry University to develop a radical form of internal combustion engine.

The brainchild of Dr Merritt, it uses an ingenious valve system and piston design to combine reasonable power output with exceptional fuel economy – around 70 miles per gallon in a small family car in urban use, projects Dr Merritt, who has been working on the concept for a decade.

That is the theory. In practice, only a single cylinder research engine has been built. What differentiates the Merritt engine, and a handful of other engine concepts, from the dozens touted endlessly and usually fruitlessly around manufacturers by their enthusiastic inventors is that a large, sophisticated and invariably sceptical engineering house is sufficiently impressed to commit its own development funding.

Therefore if all technical hurdles are overcome, in perhaps five or 10 years one of the new "alternative" engines could offer a quantum step forward in terms of energy efficiency. The same-sized car today struggles to achieve 40 miles per gallon in similar urban usage.

Pressure on car makers to achieve big steps forward in energy efficiency are intensifying. Last year, for example, a UK Royal Commission report on environmental pollution called for the fuel efficiency of the typical family car to be increased by 30 per cent over the next 11 years.

Unfortunately, other new technology appearing over the horizon, in combination with changing consumer preferences and the ever-increasing impact of safety and anti-pollution legislation, makes it likely that the efficiency gains of next-generation engines will be

HOW THREE GERMAN CARS PUT ON WEIGHT (kgm)			
Model	1978	1992	% Increase
Porsche 911 Turbo	1,143	1,458	+28
BMW 320	1,071	1,343	+25
VW Golf	843	1,171	+39

Source: manufacturers

GERMAN TARGETS FOR MATERIAL RECYCLING (%)		
Material	1996	2000
Steel	100	100
Non-ferrous metals	85	90
Tyres	40	50
Glass	30	50
Plastics	20	50
Other elastomers	20	30

Source: Bowtell Associates

reflected only partly in improved economy.

Without big changes in materials and manufacturing techniques to achieve substantial weight-savings in car bodies and mechanical components, the cars which the new generations of engines may be propelling will be even more undesirably heavy than they are now.

An overall weight reduction of 10 per cent in a vehicle typically leads to a 5-7 per cent reduction in overall fuel consumption. Yet for the last 15 years, despite all the heightened awareness of hydrocarbon fuels as a scarce and declining resource in the wake of two oil crises, cars – size for size – have continued to become considerably heavier.

Analysts point to Volkswagen's ubiquitous Golf as a good example: the first, 1978, version weighed 843kgm. The 1995 ver-

sion is around 330kgm heavier. Were it not for continuing improvements in the efficiency of Volkswagen's engines, a current Golf would be travelling some 25 per cent fewer miles per gallon than its first forebear.

Much of the extra weight of current cars is attributable to consumer preference: electric windows, central locking, sun-roofs, audio systems, air-conditioning and other desirable but inessential equipment. Little less significant in terms of additional weight penalty are safety and environmental systems such as catalytic converters (themselves growing more complex every year); anti-lock brakes, traction control and airbags.

Car bodies already made heavier on safety grounds by anti-intrusion bars in doors will soon have to become stur-

dier still. This will be to comply with more demanding crash barrier tests which the Fédération Internationale de l'Automobile has persuaded the EU to adopt from 1997.

And thanks largely to Europe's recently-concluded Prometheus collaborative motor industry research programme, in-car technology is like to proliferate at an even faster rate from around the end of the decade.

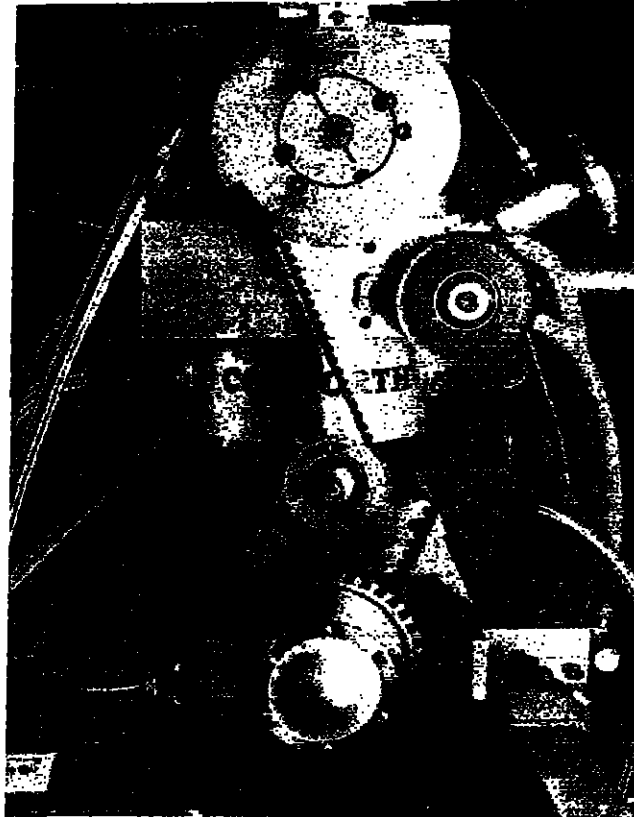
Under the Prometheus programme, a wide variety of systems has been developed which should make driving much safer and efficient, and thus can legitimately be regarded as essential. They include enhanced night vision, through "head-up" displays similar to those used by night fighter pilots; "active" steering capable, for example, of automatically compensating for sudden side-winds; collision-avoidance radar; automatic lane positioning and full satellite-based navigation systems. There is little gimmickry involved: the declared intention of the Prometheus programme is to halve the 50,000 fatalities on Europe's roads each year.

But all this technology will obviously impose yet another hefty weight penalty on cars. Without weight losses elsewhere, its fuel consumption could well become increasingly unacceptable both to consumers facing inexorable fuel price rises and to the strategic planners of 21st century transport needs.

This year, the steel and aluminium industries have become involved in an intensifying race to provide solutions in the most promising area of weight-saving: the car body itself.

The aluminium industry, whose material up to now has featured mainly in castings and other mechanical components of volume-produced cars, makes no secret of its intention to muscle in on the hugely valuable car body market – the world makes 40m new car bodies a year.

Alcoa of the US already has a well-developed partnership with Volkswagen while Alcan of Canada is closely linked with Ford.



Revolutionary: the experimental 70 miles per gallon engine designed by Dr Dan Merritt and under development by Cosworth Engineering

Audi, Volkswagen's executive car division, has already launched its A8 luxury car with an all-aluminium body 40 per cent lighter than the steel equivalent and VW says it can see no reason why even high-volume family cars cannot be made of aluminium early next century.

But the steel industry is fighting back. Two months ago a consortium of 32 steel companies from around the world announced they would move to phase two of a collaborative project to build demonstration steel car bodies up to 35 per cent lighter than current models.

The consortium, which includes British Steel, US Steel, Nippon Steel of Japan and other European, north American and Asian groups, is investing \$20m in the body-building stage of its "Ulsab" (Ultralight Steel Auto Body) project.

Phase one comprised an ini-

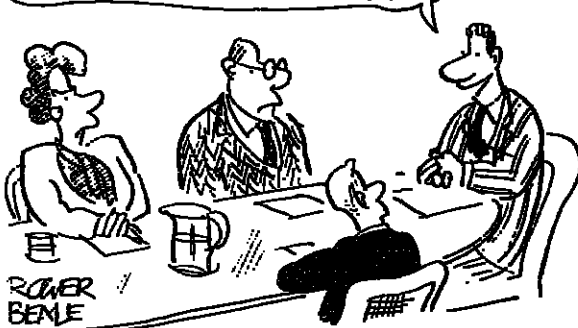
tial design and engineering exercise carried out by Porsche Engineering Services, a US subsidiary of the German luxury sports car manufacturer, and which is also heading the next phase of the project. The consortium claims that even the initial body concept – using thinner, high-strength steels and optimised design, but still using conventional assembly processes – could lower production costs by 14 per cent, while the body itself is 35 per cent lighter and more than twice as rigid as current bodies.

By the time mechanical components, trim and items such as wheels and tyres are added, the overall weight saving is much less. Nevertheless, there is growing confidence in the industry that between engine efficiency gains and body weight-saving, it should be possible to make overall progress in fuel economy rather merely drive fast to stand still.

ECONOMICAL AT 91: Genevieve, star of the 1950s film of that name, sets off in the Benson and Hedges RAC veteran car run from London to Brighton, driven by Financial Times motoring writer John Griffiths. The journey from London's Hyde Park to Brighton Promenade

lacked heater and other comforts of a modern car. But the famous two-seater Darracq, with its 12 horsepower engine and top speed of 45 miles per hour, used no more fuel for the 60-mile journey than a modern small saloon car. It was built in 1904.

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DEFENCE INDUSTRIES

Air of optimism as cuts begin to slow

The two largest export markets for western manufacturers – the Middle East and Pacific Rim – are showing signs of strength, says Bernard Gray

At the Dubai air show earlier this month there was a little more spring in the step of aerospace executives. Not only was the civil side of the business seeing the first fruits of the long-awaited upturn – with Singapore's \$12.7bn order for 77 Boeing 777s the star of the show – but defence salesmen were looking a little less gloomy for the first time since the fall of the Berlin Wall.

The reason for the optimism was not any great increase in defence orders, but a sense that the industry has found a floor below which it is unlikely to fall.

After a reduction in defence spending which has averaged almost 30 per cent in Nato members since the end of the cold war, most countries are now planning to maintain at least the current level of equipment purchases.

Several straws in the wind recently suggest that governments do not intend to slash defence spending much further. In the US this summer, many in the Republican-dominated Congress were arguing strongly for an \$8bn increase in the proposed \$243bn Department of Defence budget. Senator John Glenn of Ohio points out that defence spending has since the second world war has been strongly cyclical. He judges that the US is now at the bottom of a regular 10-year downturn, with the downward movement evident since 1985 likely to end this year. A symbol of better times is a recent \$18bn Pentagon order for a further 80 McDonnell Douglas C-17 "Globemaster III" transport aircraft.

In Europe the picture is more mixed. The UK has continued to modernise its equipment, with orders worth \$800m on Lockheed Martin C-130J "Hercules" transport aircraft, \$2.5bn on McDonnell Douglas Westland "Apache" attack helicopters, \$1.2bn on Westland EH-101 and Boeing Chinook transport helicopters, \$1.1bn on Vickers Challenger II tanks and \$230m on Sandown Mine-hunters from Vespene Thornycroft all placed in the past 18 months.

More is to come. Despite the squeeze on overall defence spending, the UK is currently looking for £2.3bn worth of nuclear hunter-killer submarines, two marine assault ships for \$500m, \$1.5bn of maritime patrol aircraft, and £2.5bn worth of missiles in three separate programmes. The biggest order of them all: the production of about 230 Eurofighters for the UK – worth about \$10bn to British industry – is also steadily edging closer.

Of the main European markets, only France is getting more gloomy. Here the bold strategic plans produced in 1993, which would have held defence spending constant until the end of the decade against the trend of other Nato members, are likely to be shattered.

Programmes such as the Dassault Rafale fighter and the Eurocopter Tiger attack helicopter are likely to be delayed

to cut French government spending. With much of the state-owned arms industry losing money heavily, substantial job cuts are likely and the defence industry waits in trepidation for detailed government plans.

The two largest export markets for western manufacturers – the Middle East and Pacific Rim – are showing signs of strength. Tensions in the Middle East Gulf remain, with the Gulf Co-operation Council states fearful of a spread of fundamentalism from Iran and with Iraq still a maverick state.

According to the International Institute for Strategic Studies, the budget problems of Saudi Arabia, caused by the low oil price and spending on the Gulf war earlier in the decade, have eased considerably. The USS estimates that the country will spend \$13.5bn on defence in 1995 and sees no reason why its substantial arms budget should not be sustained in the medium term. Production of 75 McDonnell Douglas F-15S "Eagle" fighters and 48 British Aerospace "Tornado" strike aircraft for the Saudis is well under way.

At the same time as the dip in global equipment purchases is beginning to bottom out, defence companies are completing one phase of cost cutting which has seen jobs slashed. In the period 1989-1994, employment in the US defence industry fell from 1.3m to 800,000, according to Bankers Trust, the US bank. Employment in the UK aerospace industry fell from about 175,000 to about 110,000 in the same period, according to the MSF technical union. In some companies such as Rolls-Royce aero engines and BAe's civil aircraft operations, one in two employees has gone.

The cost reductions have given companies a temporary stability which will allow time for the industry as a whole to adjust to the changes in the world market. But few think that headcount reductions alone will be enough to turn the industry around. Wholesale rationalisation of the defence business is needed if long term profitability is to be maintained.

Not only do companies have to shrink to fit a smaller market, they also have to cope with a slower rate of technological change since the spur of superpower rivalry faded away.

To respond to the pressure, US manufacturers have followed the personnel cost reductions with a wave of mergers, helping to cut central overheads further and eliminate competitors which lack the size to survive.

The wave was capped by the \$16bn merger of Lockheed and Martin Marietta in March to create a defence giant with sales of \$22.5bn a year. And to no-one's great surprise, Boeing and McDonnell Douglas are now said to be in talks which would lead to a behemoth with civil aircraft sales of \$21bn a year and defence business turnover of \$12bn.

That would leave the US with two aircraft makers, and similar consolidation into two or three missile companies and electronics suppliers is likely as the rationalisation moves down the chain of suppliers.

Europe, by contrast, has been much slower to move and some attempts at rationalisation have proved abortive. In part, structural barriers to rationalisation in Europe are

to blame. Much of the French defence industry is state-owned and loss-making, which makes it difficult to merge with foreign companies. In both France and Germany, social policy has long resisted the deep job cuts which would put the industries on an economic footing and make them attractive partners.

Different models of the future – with the UK, for example, arguing for a market approach of merged companies while continental European countries prefer consensual joint ventures with considerable national autonomy – have also interfered. Lurking in the background of each nation's thinking is the deep-seated desire for autonomy in the production of defence equipment.

Some progress has been made, but it is painfully slow. BAe announced in June that it was taking over export marketing of Sweden's Saab Gripen light fighter and would manufacture 50 per cent of any export aircraft sold. BAe has also been in talks with Matra Defense about merging the



A symbol of better times for arms manufacturers: the Pentagon recently placed an \$18bn order for a further 80 McDonnell Douglas C-17 Globemaster III transport aircraft

French and UK missile businesses for almost three years. Aérospatiale of France and Daimler-Benz Aerospace of Germany have pooled their helicopter industries and have been in similarly protracted talks about their missile and space operations.

It is, however, pretty small beer, and there is so far little

sign of the mergers between the defence giants such as British Aerospace, Daimler-Benz Aerospace and Aérospatiale which would give the European industry the clout and cost reductions it needs to survive against the US giants.

So far, European manufacturers have relied on their greater nimbleness and experi-

ence with producing small production runs to keep up with the US. UK manufacturers, for example, have been much faster to introduce Japanese manufacturing techniques to aerospace than their US counterparts. Yet the big deals have proved elusive.

That may be slowly shifting, but in a world which is no lon-

ger split by ideology, the buyers of defence equipment have much more flexibility about whom they buy weapons from and less need to ensure that they operate the same systems as close allies. Smaller markets have also made manufacturers compete even more aggressively for exports. As a result, politics has declined as an

influence on defence purchases while economics has become more important.

That price advantage will play to the US industry's advantage. It is a point European manufacturers are beginning to appreciate fully: if they do not hang together, they will, assuredly, hang separately.

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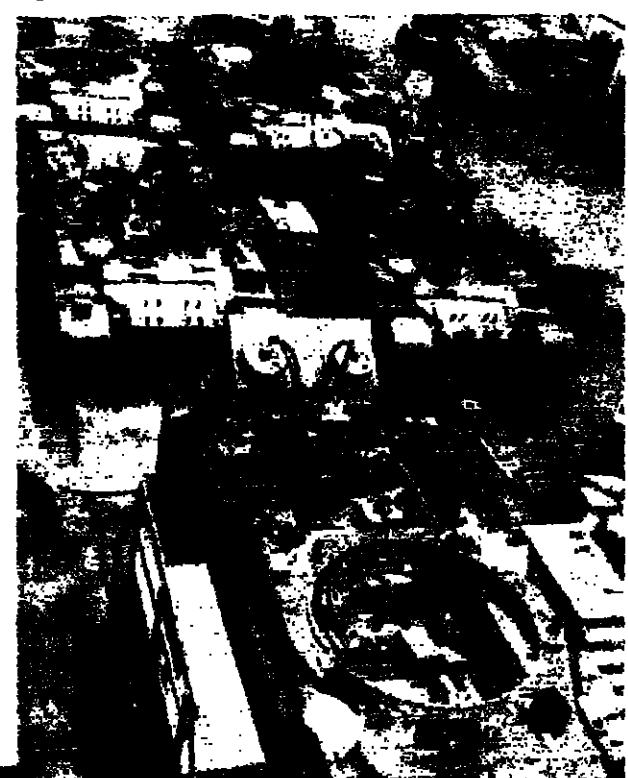
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Challenger tank production line: the UK continues to modernise its equipment, with an order worth £1.1bn on Vickers Challenger II tanks

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II DEFENCE INDUSTRIES

■ The US: by Bernard Gray

Formidable competitors

The US has the capacity to dominate the world market in advanced military hardware. Some industry executives believe it intends to try to do just that

When the merger between Lockheed and Martin Marietta was consummated in March, everyone thought that it was the ultimate defence deal. The

merger created a giant which made everything from space launchers to stealth fighters, with \$25bn in sales, and which was seen as the benchmark which other defence companies around the world had to measure themselves against.

It was part of what Mr Norman Augustine, the chief executive of Martin Marietta before the merger, describes as the next wave of defence rationalisation. First came the cost-cutting in the immediate wake of the end of the cold war, then the elimination of companies with a marginal presence in the defence market. This was

followed by the consolidation of companies with similar businesses, and finally the creation of all-singing defence giants.

Others were sceptical that there was much to be gained by putting dissimilar businesses together for scale alone. Cutting the number of military aircraft makers might make sense, but why pool the maker of Atlas space launchers with the manufacturer of Hercules transport aircraft?

Mr Harry Stonecipher, chief executive of McDonnell Douglas, summed the view up by saying: "I don't see where the synergy is."

Mr Dan Tellep, chairman of the merged Lockheed Martin, and Mr Augustine, who is president of the company, insist that savings will come as a result of lower central overheads and rationalised sites.

In June, Lockheed Martin announced 12,000 job cuts from its workforce of 170,000 and the closure of 12 factories and 26 field offices. The cuts will cost \$1.7bn but the company hopes they will save \$1.8bn as year and help throw off cash for expansion, acquisition or higher dividends.

The unspoken positive point about the merger is that the

company's chief customer is the Department of Defence - and assembling a marketing team which knows how to handle the Pentagon can be very helpful. Mr Stonecipher wryly observed recently that in the political arena, "together [Mr Tellep and Mr Augustine] will be very strong."

The Pentagon, for its part, is supporting the rationalisation of the defence industrial base. Mr Josh Gothaum is an assistant secretary for defence specifically charged with handling the slimming of the industry. He says that the US needs a competitive industry and that the Pentagon as the buyer can help the process along.

In the case of Lockheed Martin, for example, the main overlap between the two companies was in space launchers. Mr Gothaum says that the Pentagon has agreed to split the savings which will arise from rationalising the two operations with the company. The Department of Defence expects the merger will save it \$2bn over 10 years on the cost of launchers alone.

Mr Stonecipher now seems to be keener on putting complementary businesses together. Reports suggest that Boeing, the giant of civil aircraft manufacture which has a modest defence business, is in merger talks with McDonnell Douglas, the second-largest US defence contractor, with a willing commercial aircraft division.

If the two companies can agree terms, and US competition authorities do not block the deal, a monster will be created with civil aircraft sales of \$12bn and defence turnover of \$12bn. While that will leave it smaller than the merged Lockheed Martin in the defence market, it will have an impressive array of products and will be a huge force in the world aerospace business.

The pressure for the deal has both a civil and military logic. In civil aircraft, Boeing would effectively eliminate the weak third competitor in the market, which has been driving prices down, at the cost of taking on the liabilities of Douglas Aircraft's leases and existing aircraft fleet.

On the military wing, a merged Boeing-McDonnell would have an even more impressive array of products than Lockheed Martin, despite its lower turnover. Boeing has long wanted to develop its defence business and there is a



The McDonnell Douglas F-15 'Eagle' air superiority fighter is the mainstay of the US Air Force

good fit between the two companies' operations.

Boeing has two critical programmes which give it a stake in the future of US defence. It has a third share in the \$71bn F-22 stealth fighter programme, and half of the \$42bn V-22 'Osprey' which can fly like a helicopter or a conventional aircraft and will be the main future troop transport for the US Marines. As two of the largest procurement projects for the next decade, they will give the merged company a solid base for future development. Boeing also hopes that the V-22 can be developed into a civilian city-centre-to-city-centre transporter.

McDonnell Douglas, by contrast, has an impressive range of current products with export potential. It makes the F-15 'Eagle' air superiority fighter, the mainstay of the US Air Force and currently on order for Saudi Arabia; the F/A-18 'Hornet' fighter and strike aircraft which is planned to be the core of the US Navy's carrier-based force until 2020; the AV-8B, vertical take-off and landing attack fighter based on the British Aerospace Harrier and in use with the US Marines; the C-17 'Globemaster III' long-range transporter for the USAF, and the T-45 'Goshawk' advanced jet trainer for the US Navy.

Again, provided the civil competition authorities are happy, the Pentagon is also likely to take a positive view of a tie-up between Boeing and McDonnell. Any savings which flow from rationalising the two operations are likely to be shared, as was the case with Lockheed. And the combined marketing muscle of the two

companies is likely to help in the export market, cutting the costs of maintaining the US industrial base.

Mr Augustine and Mr Tellep are both convinced that the wave of mergers will continue, leaving the US with perhaps two aircraft makers, two missile manufacturers, and two electronics companies with a much smaller number of component suppliers supporting them. Employment in the industry, which has fallen by 40 per cent to 800,000 in five years, is likely to continue to fall. Those companies which

are left will be strongly cash-generative.

Yet while the merger mania is producing a leaner industry, some problems with the US industry remain. Engineering has been a strong base for unions in the past and several companies have had difficulty introducing new working practices and cutting staff. US management is also used to long production runs and has not yet adapted fully to the flexibility that smaller runs require.

Companies also have regional political interests to placate. Lockheed Martin's development work on the F-22, for example, is currently split between Fort Worth in Texas and Marietta in Georgia. It would make sense for production to be on a single site, probably at Fort Worth, where the F-16 light fighter is made. Yet there are risks in alienating Senator Sam Nunn of Georgia, who chairs the Senate armed services committee, or the congressmen of the important electoral state of Texas.

Similarly, Boeing and McDonnell would face difficulties in deciding whether or not to consolidate their fighter, helicopter or space businesses at a single site.

Foreign competitors who are tempted to take heart from the problems which hobble full efficiency in the US should beware, however. The cost reductions they have achieved and the need for export markets to replace domestic production makes them formidable competitors. The US has the capacity to dominate the world market in advanced military hardware. Some executives in the US industry say it intends to try to do just that.

CASE STUDY Lockheed-Martin

A surprise for Wall St

When the proposed merger of Lockheed and Martin Marietta was announced in August 1994, it came as a complete shock to Wall Street. Mr Dan Tellep, chairman of Lockheed, had managed to complete months of negotiations with Mr Norman Augustine, his counterpart at Martin Marietta, without a word leaking to the outside world.

The deal surprised the marketplace in another sense, because it was neither a "horizontal" matching of aircraft maker with aircraft maker or electronics company with electronics company, nor was it a "vertical" tie-up of component supplier and aircraft maker. The two companies had relatively little overlap except in the space business.

Company executives said that the deal would work because it would allow deep cuts in central services, elimination of the overlap in space systems, and bring together two companies which had the government, and in particular the Department of Defence, as its main customer. It would also be strongly cash-generative, allowing it to swallow up other companies if the

opportunity arose or use its resources for internal growth.

In the six-month hiatus caused by regulatory review, employees had time to adjust to the idea of a merged company, but there was a limited amount that executives could do to push on with rationalisation. Competition rules prevented the two companies comparing notes on price-sensitive information.

Nevertheless, senior managers could do some outline planning, and once the deal was approved in March, teams in all parts of the business swung into action to make the consolidation work in practice. In June, that resulted in a plan to cut 12,000 jobs from a workforce of 170,000 at a cost of \$1.7bn, and the closure of 12 factories and 26 offices.

The package will save the merged company \$1.8bn a year in operating expenses when it was complete. Mr Tellep and Mr Augustine both say that the deal was a textbook example of how to proceed and that there is very little they would do differently.

But there have been teething problems. The

cultures of the two companies are very different, with Lockheed having a strongly southern, almost gentlemanly US feel and Martin a sharper, north-eastern approach. That

crystallised around the issue of incentive payments to managers of the two companies on the merger. Martin Marietta executives received more than 10 times the payments of their Lockheed counterparts, which totalled more than \$88m for the two companies. The disparity occurred because

under the terms of Martin's plans the merger counted as a change of control of the company and so triggered payment of stock options and other incentives. Under Lockheed's looser rules, the deal did not count as a change of control and the payments were not made. The difference hardly eased the difficult task of merging two management teams.

Nor was the selection of the sites for closure entirely smooth. Mr Tellep said that rationalising space activities from four sites to two was essential if the merger was to work. Many, both inside the company and on Wall Street, thought that the expensive

Lockheed site at Sunnyvale in California was the natural choice for closure.

Lockheed, however, argued strongly for Sunnyvale. Eventually Sunnyvale and Denver became the two survivors with increased workloads, particularly for Sunnyvale, while plants in New Jersey and Pennsylvania closed.

There was also surprise both internally and externally that job cuts were not more extensive. Some analysts had thought that more than 35,000 jobs could go, and Lockheed Martin executives say privately that deeper cuts now would have prevented further cutbacks and lower morale later. Critics say that the working parties looking at their own businesses were too concerned to protect their own sectors and not to create a bad reaction among staff.

Even if the path has not been completely smooth, Lockheed Martin is now the giant which everyone else in the defence and aerospace industry has to look up to. Unless the merger between Boeing and McDonnell Douglas goes ahead. Now that would create a real gorilla.

Bernard Gray

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Western Europe: by Bernard Gray

Time for vigorous action

Companies and governments need to act if the European industry is to survive as anything other than a sub-contractor to the US

In the face of rapid consolidation of the US defence industry, its European counterpart has split into two camps: those who think there is no problem, and those who think there is a problem but do not know what to do about it.

That view may be a slightly unfair characterisation of the European position, but only slightly. The optimists argue that Europe has become used to manufacturing small batches of equipment and therefore are much more efficient than their US counterparts who are used to producing fighter aircraft by the thousands.

The Americans, they say, come to Europe to see how defence manufacturing should be done. They add that defence buyers in export markets such as the Middle East and Pacific Rim will always want a diversity of suppliers to make sure they have several allies to support them in times of crisis.

The pessimists think that Europe does need to respond, but that it is almost impossible to fight the way through the thicket of competing national sovereignties. Incompatible industrial structures and differing defence requirements.

They fear that the European industry will become marginal, steadily falling behind the US in technology, because its research and development is not focused, while the equipment which is produced will get progressively more expensive as it is made in smaller and smaller production runs.

Both sides have an argument, but the optimistic case will only hold up to a point. If Europe cannot cut the costs of its industry, cease duplicating facilities and research effort, and build a sufficiently large single market for its defence products, it will slowly lose ground to the US in export

markets. Some defence executives such as Mr Louis Gallois, chairman of Aerospatiale, and Mr Dick Evans, chief executive of British Aerospace, have argued that Europe should consolidate. The problem is, how?

Perhaps the easiest way forward would be for countries to form "national champions" which embraced all aspects of their defence industries. Germany has already followed that route partly with the formation of Daimler-Benz Aerospace which includes much of the defence electronics industry as well as its aerospace manufacturing. Similarly, in France, Thomson-CSF could be merged with Aerospatiale, and in the UK, British Aerospace could team with the General Electric Company.

While this would lead to some savings, as the Lockheed-Martin merger has done in the

which would restore profitability and put them on a par with UK companies who have already retrenched heavily.

Even if all the companies were profitable quoted concerns which could be taken over as they can be in the US, it is far from clear that national governments would accept the loss of control which would result from multinational ownership of defence industry bases. France in particular has long prided itself on its military independence.

Yet political backing would be needed not only to bless any union, but also align arms procurement programmes and military requirements so that any merged companies could rationalise effectively.

Several examples of the efforts which have so far been made illustrate the problems. BAE and Matra's negotiations

and the merger is stalled.

On the new Horizon air-defence frigate, which is being developed jointly between Britain, France and Italy at a cost of more than \$5bn for 22 ships, there is disagreement about how its weapons should operate.

There are many other examples. France wants to merge Aerospatiale's space business with that of Dasa (Daimler-Benz Aerospace), partly to share the cost of developing its Helios spy satellites. But Germany has so far refused to come up with the development cash.

Britain killed the possibility of a common attack helicopter produced by France, Germany and the UK this summer when it decided to buy US Apache helicopters instead. Sweden also angered France a year ago when it selected the US Aurore long range air-to-air missile for its Gripen fighter, rather than the Matra Mica.

The Franco-German Eurocopter group is developing a naval and transport helicopter, the NH90, in direct competition with the Anglo-Italian EH 101.

One political initiative to tidy up this patchwork quilt of effort is the proposed Franco-German armaments agency, which is expected to be set up in 1996. This would co-ordinate arms purchases for the two countries and could help facilitate the rationalisation of the defence industry, particularly if Britain were to join and bring together the three largest arms purchasers in Europe.

In the spring, Mr Roger Freeman, then the UK defence procurement minister, said that Britain was interested in joining and would consider placing the Horizon frigate programme, the Eurofighter, and a new generation of light bat-tled vehicles into the new agency. Now, British involvement has stalled because of continental European anger at the decision to buy US helicopters. The agency could prove a useful forum for change if such arguments can be resolved.

But companies and governments will have to act vigorously too if the European industry is to survive as anything other than a sub-contractor to the US.

about pooling their missile businesses have dragged on for almost three years. While the two companies reached agreement on the financial terms of a deal last spring, the French government has so far refused to agree to the merger. It has argued that the UK's competitive procurement policies allow US companies to enter the UK market when it would not be possible for a European company to have reciprocal access to the US.

Since the UK is running competitions for a new air-to-air missile, an anti-tank missile and a cruise missile - worth \$2.5bn in total - which are vital to the future of BAE's guided weapons business, France wants the cruise missile order placed with the new joint company as a gesture of good faith. Britain has refused,



Grand Slam: a McDonnell Douglas-Hunting Engineering missile project

US. It would still leave the European market fragmented into national units which the "champions" would then be tempted to dominate at the expense of international collaboration.

It would also not bring the much more substantial benefits of putting aircraft makers together with other aircraft makers and electronics companies with electronics companies to rationalise whole industrial sectors.

Such deals, bringing together, say GEC with Thomson-CSF or BAE with Aerospatiale and Dasa, would generate much bigger savings, but would be infinitely more difficult to accomplish. Most of the French industry is loss-making and in state hands. Both France and Germany have yet to make the deep job cuts

CASE STUDY France

Heavy spending cuts loom

Like a man in the path of an oncoming tank, the French defence industry is understandably beginning to panic.

Already suffering from falling export orders, it knows it is going to be hit by further domestic military spending cuts and that these budget cuts - which have been longer coming in France than in any other leading western country - are going to be heavy. But, trapped by the French government's continued indecision on future policy and programmes, French arms makers do not know which way to jump.

Last year, the industry recorded a net loss of FF5.5bn, or 7 per cent of its turnover. It still employs some 90,000 people directly, and about 190,000 indirectly, but jobs are already disappearing at the rate of more than 15,000 in each of the past two years, and more cuts are on the way.

Aerospatiale has announced plans to shed 10 per cent of its workforce in the form of 3,100 voluntary redundancies (split equally between its aviation and missile divisions) over the next two years.

Snecma, the aero-engine maker, says it no longer needs a quarter of its 12,000 workforce, and plans to get rid of an initial 800 jobs next year.

The Direction des Constructions Navales (DCN), whose 25,000 workforce makes and repairs ships and their weapons systems for the Defence Ministry, is estimated in a recent parliamentary report to have 5,000 more people than it can justify with a FF20bn annual turnover.

Most calculations of all is the situation of Giat, the maker of the Leclerc tank. If it were not state-owned, it would be bankrupt with "negative" own funds of FF2.4bn at end-1994 and perhaps as much as FF4bn now. It made an operating loss of FF1.5bn last year on turnover of FF7.7bn and is expected to

show a FF1bn operating loss this year.

Giat's plight is all the more amazing, because in 1993 it had the good fortune to compensate reduced orders from the French army (no longer on call for a tank battle against the Warsaw Pact) with a huge order of 436 tanks from the United Arab Emirates, priced in dollars and worth a notional FF20.5bn. But Giat covered itself so badly against the foreign exchange risk on the dollar - estimating an unrealistically high rate of FF5.70 to the dollar - that it has already lost FF600m on this score alone.

In all, state-owned or controlled defence companies are asking their owner for nearly FF30bn in

to go up to President Chirac for decision. In the meantime, Mr Millon says he is not prepared to let hardware decisions pre-empt the strategy review, although he has indicated the government may provide money this autumn to soften the blow of defence redundancies.

Pending important decisions next year, the government has simply proposed further pruning of this year's FF98bn defence equipment budget to FF78bn in 1996, mainly by stretching out existing programmes for the Charles de Gaulle nuclear-powered aircraft carrier and Dassault's Rafale jet fighter and by delaying the start of series production of the Tigre helicopter, built by the Eurocopter joint

venture by Aerospatiale and Daimler-Benz Aerospace (Dasa). However, there is growing pressure - from leading backbench MPs, some top military officers and even a number of defence industrialists - for the government to improve the focus of its defence effort after the Cold War and to decide what equipment it can, and even more important, what it cannot, afford.

Otherwise, the fear is that the military will end up with a hodge-podge of half-fulfilled ambitions, while many arms manufacturers will drown in the rising tide of red ink.

Mr René Galy-Dejean, the National Assembly's defence committee rapporteur, believes the navy should be told that it cannot have a fourth nuclear missile submarine and a second nuclear-powered aircraft carrier, the army that it cannot have the troop transport version of the NH90 helicopter, and the air force that it cannot have the air (as distinct from navy carrier) version of the Rafale if it wants the new Future Large Aircraft (FLA).

Significantly, General Jean Ramiou, chief of the air force, has also publicly complained that the financial weight of the Rafale programme (at FF200bn, the country's most expensive) risks crushing the rest of his service's programmes, and France might do better to stick to the latest Mirage version - the Mirage 2000-5 - which has also proven its export worth.

As to the defence industry, everyone realises it is in for long overdue restructuring, but no one knows quite what shape it will take. In such a vacuum, rumours flourish - old ones such as a rapprochement between the country's two aircraft makers, Aerospatiale and Dassault, and new ones, many of which centre on Matra, because as part of the private sector Lagardere group it has the freedom of initiative denied its state-owned counterparts.

While French government indecision is hindering restructuring inside France, the slowness of other governments to take key programme decisions is also hampering French companies' international ambitions.

Matra is awaiting the outcome of the UK government's decision on a new conventionally armed stand-off missile (Cason) to decide whether it is worth marrying its missile division to that of British Aerospace. Likewise, Aerospatiale's attempt to get closer to Dasa in satellites as well as missiles has been held up by slow decision-making in Bonn.

David Buchan



Aerospatiale FLA military transport concept

recapitalisation, of which Aerospatiale is seeking FF10bn and Snecma FF6bn, while Thomson-CSF, the defence electronics company, wants FF10bn if it is to be privatised along with Thomson Multimedia which carries heavy debts from past consumer electronics losses.

However, for the moment, Mr Charles Millon, the defence minister, only seems to be inclined to act in the case of Giat to prevent the tank-maker from completely disappearing.

The reason is that the government has set in train a complete defence review of all policies and programmes - nuclear and conventional - which will only be complete at the start of next year, and which will in each case have



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IV DEFENCE INDUSTRIES

■ South Africa by Roger Matthews

Hurricane of change

The armaments sector can claim to be internationally competitive in some key areas and well positioned to assist South Africa's overall export effort

The hurricane of political change blowing through South Africa has affected few commercial organisations more emphatically than Armscor, the company responsible for national arms acquisition and the co-ordination of its international military sales efforts.

Although state-owned, Armscor operates along private sector lines, and during the 1980s achieved a reputation for being among South Africa's most secretive organisations. The combination of an international arms embargo, and the war which South Africa's defence forces were fighting primarily in Angola, led the government to sanction a range of covert activities while encouraging the domestic industry to develop weapons that could not be acquired on the open market.

The new government, led by the African National Congress, which took office in

May last year, is still having to sort out some of the problems left from that era. But it is also the beneficiary of an armaments industry which in some key areas can claim to be internationally competitive and well positioned to assist South Africa's overall export effort.

Thus has all contributed to an intense debate within the ANC and the government over the future role of the military, the morality of selling arms overseas, and the impact this will have on the industrial capability which had developed so strongly over the previous 20 years.

Mr Joe Modise, the minister of defence, reminded parliament recently that the impact of cutting the defence budget from about R20bn (\$5.5bn) seven years ago to R10bn today meant that South Africa could not even maintain the minimum level of forces required to satisfy defence requirements. With some 73 per cent of that reduced budget being consumed by operating costs, a mere 27 per cent was available for capital expenditure.

This has inevitably had a huge impact on Armscor and the approximately 700 companies involved in the industry which, at its peak in the late 1980s, provided work for more than 180,000 people, a figure that has progressively slumped to its present level of about 50,000. But as the

domestic door has partially closed, so international opportunities have widened following the decision by the United Nations to lift its arms embargo in May last year.

Armscor, mindful of its past, now seeks to reflect the wider political image transmitted by the ANC. It wishes to be seen as a responsible, accountable and transparent international player, an essential ingredient in seeking to raise annual exports from the current R850m to R2.4bn, or some 2 per cent of the global market. To assist the process, Armscor is extending its international reach with offices in Paris, Switzerland, Moscow, Tel Aviv, Kuala Lumpur, Beijing and New York.

Mr Andre Buys, the senior executive responsible for planning, said Armscor was particularly focusing its efforts on areas "where not even pacifists could raise any objections".

South Africa's experience in Angola, where the terrain was ideal for planting land mines, had forced it into developing expertise in mine clearance operations which, Mr Buys claimed, led the world. "There is a huge market for the package we have developed in protection against mines, detection, and clearing," he said. Similarly, Armscor is attempting to promote internationally the technological



The 155mm G-5 artillery gun: potentially the most valuable of South Africa's weapons exports

advances it has made in radar and military communications. However, the potentially most valuable of South Africa's exports remain its artillery packages, based on the 155mm G-5 and G-6, and the Rooivalk attack helicopter. Despite disappointment that Britain did not select the Rooivalk, Armscor was pleased that it had progressed so far in the selection process and has strong hopes of international sales.

At the same time, defence cutbacks in South Africa have provided a steady flow of surplus weapons for disposal, and Armscor enjoys the advantage of being able to draw on existing military inventories to meet urgent requests from overseas.

"If a customer is in a hurry we sell the army, for example, if they are willing to release certain equipment," said Mr Buys. "There are advantages all round. The customer is served quickly. There is no need to carry large stocks. And the military gets new equipment."

The severity of successive cuts in the defence budget have also led to changes in Armscor's approach to the acquisition of arms. Foreign manufacturers negotiating to sell weapons to South Africa are at the moment required to negotiate a counter-trade agreement, equal to 80 per cent of the total contract. This will rise over the next three years to 100 per cent.

An organisation called Macro Counter-

Trade International has been set up to assist foreign buyers to identify purchasing opportunities in South Africa. Such purchases can also be used to build up credits against future sales to South Africa.

A decision on the biggest planned purchase this year of four corvettes for the navy, worth as much as R1.5bn, was postponed in May amid speculation that it might be abandoned completely. Although strongly supported by Mr Modise and Mr Ronnie Kasrils, the deputy defence minister, the parliamentary defence committee expressed strong doubts that the ships were needed, with some MPs arguing that the money would be better spent meeting the basic needs of the most deprived members of the community.

The Barzan Shipyard of Spain was the front runner, closely followed by Yarrow Shipbuilders of the UK, with both companies having submitted counter-trade proposals involving respectively a long-term contract to purchase coal and work on constructing local power stations.

The possible purchase had first been raised 10 years ago, and Armscor executives feel the requirement is even greater today in South Africa's changed circumstances, a view shared by Mr Modise.

But with the government making only the most modest progress in reducing the budget deficit, the squeeze on defence expenditure is likely to remain intense. The defence lobby in South Africa is going to have an uphill struggle for the foreseeable future.

■ Russia: by John Thornhill

Hundreds of arms factories left idle

Client states in eastern Europe and the third world - captive markets for Russian arms - have turned their backs on their former supplier

General Pavel Grachev, Russia's defence minister, was looking grim. As he reviewed the state of his country's armed forces and defence industry in a rare press conference this month, his mood grew grimmer still.

"Budget allocations for the procurement of military hardware over the past four years dropped by 88.9 per cent; for research and development by 75 per cent," the Afghan war veteran growled.

"All this has created a critical situation at most enterprises in the defence sector.

More than 2m people have been eased out of military production."

The minister was no more optimistic about the future. "The Ministry of Defence's budgetary claim for 1996 is the minimum necessary sum of Rbs134,000bn (\$29bn). However, the draft budget allocates a mere Rbs77,100bn which is about half of what was requested."

That the defence claim should come so low on the list of budgetary priorities is a shock for Russia's military. In Soviet times, Russia's generals were used to receiving a seemingly endless supply of money to finance their military ambitions.

Economists estimate the defence sector accounted for as much as 25 per cent of Russia's gross domestic product in the late 1980s.

But the end of the cold war and Russia's fitful transition to a market economy has produced convulsions in the coun-

try's industrial base and left hundreds of the 1,700 defence plants idle. Almost every day, it seems the Russian press carries reports of another plant shut-down.

Last year, the Tula arms factory, one of the most famous in Russia, temporarily stopped production for the first time in three centuries as a result of a cash shortage. Last month, the Polet industrial association in Ivanovo, which is the only parachute manufacturer in Russia, shut down because of a similar lack of funds. Even such well-known names as Kalashnikov, which has been the preferred rifle of insurgents around the world, have experienced problems.

Client states in eastern Europe and the third world, which proved captive markets for Russian arms, have also turned their backs on their former supplier.

Some of the central European countries have begun buying western arms to ease

their path into Nato.

The Russians have been forced to adopt more imaginative approaches to selling arms. For example, Russia has reached a debt rescheduling agreement with South Korea under which it will provide some \$450m of raw materials and defence equipment, including helicopters, as part-payment for its Soviet-era borrowings. But such opportunistic arrangements are no substitute for long-term planned expansion.

Russia's aerospace sector, which produced some of the most advanced military aircraft in the world, such as the MIG-29 and the Blackjack and Backfire bombers, undoubtedly has the potential to succeed in international markets. It could re-emerge as a leading supplier of high-specification, low-cost warplanes to developing countries but has first to reorient itself to the demands of future customers.

A recent study of the Rus-

sian aerospace sector concluded: "Making exceptional planes is no longer enough. The end of the cold war, the shift in defence priorities away from complex weapons systems, and declining demand for commercial aircraft have thrown the global aerospace industry into turmoil. Nowhere is this turmoil so acute as in Russia."

The study of the whole aerospace market, conducted by McKinsey, the international management consultants, concluded there needed to be radical change to the structure of the industry.

The rival aircraft design

bureaux needed to be re-integrated into focused, market-driven enterprises which could learn from western manufacturing and sales techniques. "There is a long way to go, but the potential for success does exist," the report concluded.

There have been some eye-catching examples of radical change in other sectors of Russia's defence industry. For example, the Zvezdochka warship building yard in Russia's Arctic has teamed up with a local enterprise that built nuclear submarines to construct two \$14m floating drilling rigs for Gazprom, the giant gas producer. The yard has also won an order to build 22 trawlers for the Archangel fleet.

Converting defence plants to

civilian use has been one of the high priorities of western donor agencies. The European Union's Tacis programme, which provides technical help to Russia, has focused much effort on the process.

There are two chief reasons to believe that Russia's defence plants may have a chance of adapting to market conditions. The first is that Russia's military industrial complex already has experience of producing consumer goods. Under the communist regime, the military-industrial complex produced 100 per cent of Russia's television sets, 100 per cent of its sewing machines, and 80 per cent of its motorcycles.

This opening into more accessible consumer markets

could provide the lifeline for some defence companies keeping them afloat until the demand for their mainline military products stabilises and their operations have been restructured.

The other reason for some optimism is the sheer depth of intellectual capacity available. The military-industrial sector dominated Russia's scientific professions and maintained 920 research and development organisations. In the late 1980s it was estimated that Russia boasted 9,398 scientists and engineers per million people, compared with 5,228 in Japan and 3,317 in the US. At some point that highly skilled pool of human capital could be redeployed to more effective use.

■ Asia: by Kieran Cooke

Power vacuum danger

It is estimated that Asia's defence spending rose about 25 per cent in the 1986-1993 period, while that of the Nato countries decreased slightly

When defence analysts of Asia get together, two topics usually dominate discussions. One is whether or not the growth of China's military forces represents a threat to other countries in Asia. The other is whether the region, partly in response to a perceived threat from China, is involved in an arms race.

Rarely do the often heated exchanges result in any clear answers. However, on one point there is agreement: a great deal is happening in the defence field in Asia. Nations are spending more on their military forces than ever before and acquiring substantial amounts of new equipment.

Virtually every country is nurturing the development of its own defence industry. It is estimated that Asia's defence spending rose about 25 per cent in the 1986-1993 period, while that of the Nato countries decreased slightly.

"Defence spending in East Asia is growing at a far faster rate than in other parts of the world," says a regional military strategist. "Countries in East Asia say they are involved merely in long-overdue military modernisation programmes, made possible by the region's fast track economic growth of recent years. But no one is admitting they have any wish, or see any possibility, of using the defence equipment they are acquiring or, more recently, building for themselves."

Malaysia serves as an example of the general trend in defence in Asia. For many years the development of Malaysia's armed forces was largely ignored as the country battled with improving basic living standards and weaning the economy off its traditional dependence on commodities such as rubber and tin.

In each of the past seven years, Malaysia's economy has grown by about 8 per cent. Economic success has brought more confidence and a wish to be recognised as a country of power and influence. Under its recently completed 1991-95 defence plan, Malaysia spent about \$3bn on weaponry, an increase of more than 200 per cent over the previous five years.

The purchases include 28 British-made Hawk fighters, eight US-made F-18s, and 18 MIG-29s, the first such order of

the Russian-made attack aircraft in East Asia.

Other equipment under consideration includes 27 offshore patrol vessels and a submarine. Malaysia is now spending about 4.5 per cent of its gross domestic product on defence. Last year that figure was approximately M\$6bn. As GDP growth charges ahead, so defence spending is also likely to expand rapidly.

Malaysia is not just buying equipment: it is also seeking to rapidly expand its fledgling defence industry. Mr Najib Tun Razak, defence minister, until a cabinet reshuffle earlier this year, talked of the need to build up a defence industry which would contribute to the country's overall development.

"The expanding defence industry will prove that it can also contribute to the national economy, generating job opportunities and saving foreign exchange," said Mr Najib.

Mr Syed Hamid Albar, the

present defence minister, stresses the role which defence industries can play in transferring technology. On a recent visit to South Africa, with which Malaysia has quickly developed close defence ties, Mr Syed Hamid said there was considerable scope for the two countries to collaborate on joint production of various defence equipment.

"The relationship is now not just a buyer-seller relationship... now it is more about joint ventures and technology transfer," said the minister.

An Asia-based British defence analyst says it is clear that many countries in the Asia region are diversifying their sources of supply away from the big powers to countries such as South Africa, Chile and Argentina. Countries such as Malaysia are also demanding more in return for awarding defence contracts.

"If Britain is selling Hawks to Malaysia, then Malaysia wants to make sure it sells its Proton cars to Britain," says the analyst. "Malaysia is also insisting that more and more production of defence equipment takes place in the country - that is the trend throughout the region."

An order for more than 40 infantry fighting vehicles from Daewoo of South Korea is based on much of the production being done in Malaysia. A contract for offshore patrol vessels - likely to be worth in the region of M\$4bn - will be carried out as part of a massive privatisation of the country's biggest naval dockyard: again, the foreign company that wins

the contract will have to ensure that the bulk of the manufacturing of the vessels ordered is done within Malaysia.

Countries in the region are still deeply suspicious of each other. Some, such as Pakistan and India or South and North Korea, still see each other as the main military threat. But elsewhere, despite the increased regional defence spending, traditional antagonisms show some signs of easing.

Singapore has south-east Asia's most well-equipped military. Its Chartered Industries group, established in 1967, is a military equipment producer of some considerable size and is one of the world's top 10 small arms producers and suppliers.

While Singapore has traditionally seen itself as a small fish in a hostile sea, and constantly emphasises the need for vigilance and battle preparedness, there is now increasing defence co-operation with Indonesia and Malaysia.

Under a newly-created regional defence forum, countries in the Asia Pacific region are discussing defence issues and considering the possibility of a regional arms register.

At some point, the Malaysians and the Indonesians might consider co-operating in defence manufacturing: Indonesia has built up a considerable defence manufacturing industry.

Last year, Indonesia and Malaysia entered into a complex barter arrangement, with Malaysia exporting its Proton cars to Indonesia in return for Indonesian-built Industri Pesawat Terbang Nusantara (IPTN) 235 military transport aircraft.

As part of the deal, Malaysia's Airod air and defence industries group would also carry out servicing on Indone-

sian air force Hercules transport aircraft.

However, few expect old regional suspicions to completely disappear. Analysts feel that although there may not be an arms race going on in the region, nations still feel the need to match each other's defence equipment. Thailand is contemplating buying three submarines. Singapore is purchasing one for training purposes. Now Malaysia may also purchase a submarine.

Countries in the region are investing in satellites, partly for military purposes. "A lot of military hardware purchases are made more for prestige than to fulfil any particular need," says a Malaysian academic. "The trouble is, many countries buy the equipment but just do not have the people to use or service it. For example, Malaysia now has its Hawks and MIGs but has a chronic lack of experienced pilots and engineers."

Whether or not such equipment will have to be used is generally seen to be dependent on China's territorial ambitions. From Japan in the north to Indonesia in the south, there is regional concern at China's increasing military power.

While some countries, such as Malaysia, tend to disregard the notion of China's navy one day laying claim to the entire South China Sea - an area referred to in Chinese documents as "shengquan kongjian" or survival space - others are more troubled about the future.

The US is felt to be exercising less military influence in the region. There is a power vacuum. If it feels threatened by other powers, whether over trade or other matters, China might be goaded into action and into showing its new-found military strength.

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